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# ***JPRS Report***

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# **China**

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# SPECIAL NOTICE

Effective 1 June 1987 JPRS reports will have a new cover design and color, and some reports will have a different title and format. Some of the color changes may be implemented earlier if existing supplies of stock are depleted.

The new cover colors will be as follows:

CHINA.....	aqua
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WEST EUROPE.....	ivory
AFRICA (SUB-SAHARA).....	tan
SCIENCE & TECHNOLOGY.....	gray
WORLDWIDES.....	pewter

The changes that are of interest to readers of this report are as follows:

The CHINA REPORT: ECONOMIC AFFAIRS (CEA) and the CHINA REPORT: POLITICAL, SOCIOLOGICAL AND MILITARY AFFAIRS (CPS) will no longer be published. Material formerly found in these reports will appear in the CHINA (CAR) series.

CHINA/RED FLAG (CRF) will be issued as a separate series.

CHINA/STATE COUNCIL BULLETIN (CSB) will be issued as a separate series.

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8 JUNE 1987

## CHINA

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## LIAOWANG ON INDIRECT TALKS ON AFGHANISTAN

HK261514 Hong Kong LIAOWANG OVERSEAS EDITION in Chinese No. 12, 23 Mar 87 p 28

["Special dispatch from Islamabad" by Tang Shuifu (3282 3055 1381): "Let's See When the Soviet Troops Withdraw From Afghanistan"]

[Text] The third stage of the seventh round of indirect talks between Pakistan and the Kabul regime on the Afghan issue was held in Geneva from 25 February to 9 March, presided over by Cordovez, personal representative of the UN secretary general. This round of talks concentrated on the key issue of the timetable for the Soviet troop withdrawal from Afghanistan. Both the Afghan and Pakistani sides made some concessions, and their divergence of view on the deadline for withdrawal has been narrowed. But no agreement has yet been reached.

Some well-informed sources here said that when this round of talks opened, the Kabul regime proposed that the Soviet troops be withdrawn from Afghanistan in 3 years, that is to say, 1 year ahead of the schedule it had offered before. But Pakistan still held to the stand that the Soviet troops should be withdrawn in 3 months, claiming that since the Soviet troops could take over Afghanistan in just 1 night, it should not be difficult for them to withdraw in several months. As both sides stuck to their own stand, the talks reached a deadlock. The Kabul regime later offered that the Soviet troops would withdraw from Afghanistan in 18 to 22 months, and the Pakistani side also showed a certain degree of flexibility by extending the suggested period from withdrawal to 6 to 8 months. Nevertheless, there is still a gap of about 12 months between the withdrawal schedules proposed by the two sides. This being the case, Cordovez decided to adjourn the talks as agreed by both sides, and it was announced that a new round of talks would be held in Geneva in 2 months.

The indirect talks on the Afghan issue began in 1982. During the period between the first round of talks held in June 1982 and the second round of talks held in June 1983, the Soviet Union repeatedly emphasized the principle of "guarantee before withdrawal," which meant that the issue of the Soviet troop withdrawal from Afghanistan should only be taken up after an "international guarantee" was made against "intervention in Afghan affairs by external forces." During the third round of indirect talks held in August 1984, Cordovez put forth a "draft of the agreement on mutual nonintervention between Pakistan and Afghanistan" and a "draft of the agreement on the full

resolution of the Afghan issue." The Pakistani side regarded these two drafts acceptable but emphasized that they would be acceptable only if they were both legally valid, while the Kabul regime resolutely ruled out the latter draft, accepting only the legal validity of the former--the key lay in that the regime had always refused to touch the issue of the Soviet troop withdrawal from Afghanistan.

During the fourth round of indirect talks held in June 1985, four documents put forth by Cordovez were discussed, namely, the bilateral agreement on mutual nonintervention between Pakistan and Afghanistan, the declaration on international guarantee jointly extended by the United States and Soviet Union, the bilateral agreement between Pakistan and Afghanistan on repatriation of Afghan refugees, and the agreement on the relation between the Soviet troop withdrawal and the above agreements. The two sides have reached basic agreement on the first three documents, but a notable divergence of views remained unresolved regarding the fourth document and, in particular, on the key issue of the Soviet troop withdrawal.

During the fifth round of talks held in August 1985, the Kabul regime asked for a change in the form of talks so that it could hold "face-to-face direct talks" with Pakistan. As this would have made recognition of the Kabul regime a fait accompli, the Pakistani side rejected the request.

The seventh round of indirect talks held in May last year concentrated on the issue of the Soviet troop withdrawal from Afghanistan. The main difference in opinion between the two sides lies in the time, conditions, and procedures of withdrawal. The Kabul regime proposed that the Soviet troops withdraw in four years after the signing of the agreement between the two sides, on the condition that all external aid to the Afghan resistance forces be stopped, all hostile operations along the Afghan-Pakistani border be suspended, and Afghan guerrillas lay down their arms. In response, the Pakistani side demanded that the Soviet Union withdraw its troops in three months after the signing of the agreements. Pakistan also disagreed with the Kabul regime about the conditions for withdrawal. Great differences in opinion still remained unresolved between the two sides on the withdrawal schedule, and no agreement was reached during the second session of the seventh round of indirect talks held in August last year.

Observers hold that the main reason the indirect talks on the Afghan issue have so far failed to make any substantial progress is because the Soviet Union and the Kabul regime have made no fundamental change in their stand in seeking a settlement of the Afghan issue.

The Soviet Union has assumed some "New Postures" on the Afghan issue and stepped up its propaganda campaign since last year, showing again and again its great "flexibility" on the political settlement of the issue. Echoing Moscow's propaganda, Najibullah, head of the Kabul regime, made a "cease-fire" offer earlier this year, announcing that the regime would effect a unilateral cease-fire with the guerrillas and calling for the establishment of a "national coalition government" and the realization of "national reconciliation," with the cease-fire as a starting point. Recently, the Kabul regime declared its intention of holding talks with the Afghan resistance



organizations on the establishment of a coalition government and expressed welcome for the resistance forces' participation in the coalition government..

However, it has been noted that the Soviet Union and the Kabul regime have always intensified the aggressive war as well as their suppression of the Afghan resistance organizations. Reports from the Afghan battlefield show that the Kabul regime has broken the six month cease-fire offer that it made. Since 15 January, the Soviet and Afghan authorities have called out several thousand troops to launch offensives against Afghan guerrillas and sent planes to bomb guerrilla bases and villages, causing heavy casualties on the part of innocent civilians.

At the same time, Afghan planes have wantonly bombed Pakistani border areas time and again. A total of more than 100 Pakistani civilians and Afghan refugees were killed and several hundred people injured in only 5 days after the latest round of talks opened. In the past few years, the Kabul regime always played a trick by intensifying military threats on the eve and in the course of every round of indirect talks and exerted pressure on Pakistan in vain hopes of compelling Pakistan to make concessions in the indirect talks.

There is a reason the Soviet Union and the Afghan regime change their tactics from time to time. When they first invaded Afghanistan, the Soviet authorities expected that they could conquer the country with armed force within a short period. However, in the past seven years, they have faced tenacious resistance by the Afghan people all the time. In consequence, they have landed themselves in an isolated position in the world, while facing at home a stronger and stronger appeal for an end to this war. After his rise to power, Gorbachev decided to implement a strategy of accelerated development. He needs to extricate his country from the predicament in Afghanistan, which may wear down its financial and human resources. However, he is also afraid that the Kabul regime will not be able to keep the situation under control and the Soviet interests in Afghanistan will be affected once the Soviet troops withdraw from the country. Therefore, he has failed to make up his mind even after stalling for a long time. However, so long as this situation continues, the Soviet Union will land itself deeper and deeper in a passive position.

The Afghan issue arose from the Soviet armed invasion, and the key to the political settlement of the issue lies in Soviet troop withdrawal from the country. People are looking forward to Moscow's and Kabul's early actual deeds. A real solution to the Afghan issue rests on an early Soviet troop withdrawal from Afghanistan.

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CSO: 4005/611

## SYMPOSIUM DISCUSSES ESSENCE OF LAW

Beijing GUANGMING RIBAO in Chinese 21 Jan 87 p 3

[Article by Zhao Xiaoguang [6392 2556 03 ] and Luo Yaqi [5012 0068 1142]:  
 "'Theory and Practice of Building China's Socialist Legal System'; Summary  
 of Symposium on the Essence of Law"]

[Text] The symposium on "The Theory and Practice of Building China's Socialist Legal System" held in Wuxian, Jiangsu Province, explored the essence of law. All participants expressed their ideas whether law is a special phenomenon of the class society, and whether, in a socialist society where class opposition has basically vanished, law still embodies the class will. Generally there were two views.

According to the first view, law emerges simultaneously with the inception and development of the state and withers away with it. Like the state, law conforms to the need of socio-economic developments, emerging with private ownership and classes and vanishing along with them. The proletarian primitive society and the communist society of the future will have neither state nor law. The view that patriarchy in the later period of primitive society already included a power structure which controlled society's public affairs and bore the imprint of coercive norms, in other words, the view that law existed in primitive society, fails to account for the fact that this was the phase of transition from a classless to a class society. In the later period of primitive society, such norms as religion, morals and customs, all coercive to a certain extent, often fused. It was difficult to draw the line between what was law and what was not. Thus, law in its strict sense and the norms of conduct which are enforced by state coercion, existed only in a class society. For this reason, the essential attribute of law is bound to be the will of the state. This is a characteristic not found in any other social phenomena. Class nature is the most essential embodiment of law.

However, there were two different opinions about the essence of socialist law when class opposition has basically vanished.

According to the first opinion, Marx and Engel's generalization of law in the "Communist Manifesto" still applies to socialist law. In a socialist society, though the exploiters as a class have basically vanished, hostile elements and hostile forces still remain; class struggle still exists and may aggravate



under particular conditions; and the international bourgeois influence cannot be overlooked. Therefore, we must not think that there is no ruling class in a socialist society. Socialist law is the embodiment of the will of the new ruling class, in other words, the vast number of people under the leadership of the working class. According to the second opinion, in view of changes in China's present class conditions and the shift in society's main contradictions, to regard the will of the people under the leadership of the working class as the will of the ruling class makes no sense either in theory, fact or logic. But it cannot be said that because the ruled class has disappeared, China's socialist law has turned into something with no class nature to speak of. The class nature of law is not only reflected in the objects of dictatorship and sanction, but also determined by the class and classes in control of state political power, the nature of law formulated, and the principles and policies adopted to administer the state and manage society. Thus, socialist law remains an embodiment of class will. Therefore, besides the legal concept commonly applied in all societies under class opposition, that is, the concept that "law is the embodiment of the will of the ruling class," there is naturally a concept of a higher level commonly applicable in all class societies, that is, "law is the embodiment of the will of a particular class."

Those holding the above opinions differed from others at the meeting who believed that the part of law relating to public affairs not only serves the ruling class but also represents the common interests and needs of the society, and therefore has no class nature. They feel that the essence of law must be recognized in its entirety. All concrete laws are parts of the legal system as a whole. They all perform the same service and reflect the basic interests and needs of the class determining the nature of law. In a situation where class nature is dominant, the various laws vary only in the degree of their class nature, and we cannot say that some laws have a class nature and others do not.

According to the second view, law exists because of the different holdings of assets determined by the developmental levels of social productive forces and because of the commodity exchange and conflict of interest this engenders. This situation not only emerged prior to classes, but also will continue after their disappearance. In a class society, while law doubtlessly embodies the will of the ruling class, its essence cannot be sought in its relationship with the ruling class, but only in its relationship with the conditions of society's material life. Therefore, the "Roman law" of the slave society, the "Napoleonic Code" of capitalism, and the civil law of socialism all reflect the general conditions of commodity production and exchange. The evolution of laws of different social systems is determined by specific material living conditions, and is not subject to the will of the ruling class. The conclusion is that law, in its essence, takes on the characteristics of the normalization and authorization of society's material living conditions, resulting primarily from the difference in property ownership. Normalization refers to the conversion of material living conditions by means of man's will into norms of conduct, and authorization means the enforcement of such norms of conduct by means of society's specially designated public power.

Some experts and scholars at the meeting expressed their views on the nature of law in a socialist society where class opposition and differences are gradually disappearing and class nature continuously declining.

FAMOUS WRITER ANALYZES 'DOUBLE-HUNDRED' POLICY

Beijing XIN GUANCHA [NEW OBSERVER] in Chinese No 19, 10 Oct 86 pp 14-16

[Article by Liu Xinwu [0491 1800 2976], (editor of RENMIN WENXI E): "Contemplations on A Leaf"]

[Text]

I

It is only a leaf on a tree. It does not always think only of itself, but also the branches, the trunk, and the root, and even beyond the tree itself. Is this presumptuous?

II

"The party, the party, dear mother..."

The lyrics are sincere, the melody emotional, the rendition vibrant, and the broadcasting accurate.

But the words are open to question.

For instance, just who is whose mother?

The people are the party's mother.

It was not the party which created the people, but the people who created the party.

It was not the party which nurtured the people, but the people who nurtured the party.

Separated from the people, the party is no longer a party.

Of course, as individuals, we are gratefully singing of the party's nurturing and education. This can also strike a sympathetic chord among those who have shared similar experiences.

We should also have such a song: "The people, the people, dear mother..."

Members of the Communist Party should sing such a song in their hearts.

In the new historical period, it is more appropriate to have such a song, to sing such a song.

"The party, the party, dear mother..."

Actually, the singers extol the party as an entity, but one fears that some party bureaucrats, amidst the songs of praise, may feel relaxed and carefree, and assume themselves to be the "mothers" or "fathers" of their units.

A groundless fear?

### III

These are of course heavy thoughts.

"Without the Communist Party, there would have been no new China."

Another song. A song epitomizing a universally acknowledged and unalterable historical fact.

However, how would we react if someone said that without the Communist Party, there would have been no "Great Proletarian Cultural Revolution."

Perhaps we can argue that the "Great Proletarian Cultural Revolution" was launched by the "gang of four," but the "gang of four" basically could not be regarded as members of the Communist Party; they have the characteristics of the Guomindang. Therefore, the "Great Proletarian Cultural Revolution" was started by the Guomindang....

Logically speaking, this makes no sense, nor does it conform to facts.

The "Great Proletarian Cultural Revolution" was an extremely complex socio-historical phenomenon. It cannot be cleared up for the time being. We can put it aside for now.

Nevertheless, we certainly can say:

Without the Communist Party, the "Cultural Revolution" would not have ended.

Without the Communist Party, there would be no post-"Cultural Revolution" period.

Without the Communist Party, there would be no enlivened and open China today.

### IV

A few months ago the papers prominently featured a letter from a group of elementary school students. The students were extremely bewildered by the banquets given by big shots in restaurants. They felt that there were contradictions between what they saw in society and what had been taught by their political instructors. Thus, they voiced their critical view.

However, economic construction is bound to make the socialist commodity economy prosperous, and a prosperous commodity economy will lead to increased consumption among the masses. This then leads to the opening of new restaurants, expensive restaurants, joint-venture restaurants, restaurants jointly funded with Hong Kong businessmen, elegantly decorated restaurants, and "restaurants catering to banquets." If no one patronizes them or gives banquets, why operate them?

The feeling of the elementary school students is perfectly understandable. It shows that there is an urgent need to coordinate elementary school textbooks with economic reform.

But why did our newspapers give such prominence to the students' letter, thereby lowering our level of understanding to that of the elementary school students?

During the "Cultural Revolution," time and time again we totally affirmed the views of "elementary school students" and created a "tornado" engulfing countless numbers of adults.

We must learn the lessons of history.

## V

"Promote material civilization on the one hand and spiritual civilization on the other." "Promote the two civilizations together."

In China political phrases are used primarily to explain analogies relating to persons on other examples.

"One hand," "the other hand," "promote together" are very vivid terms.

But I always feel that the coordination of the two should be stressed.

Spiritual civilization should be coordinated with material civilization.

When we review our journey over the past decade, we find that we have made extremely crucial and meticulous moves in coordination.

"Practice is the soul criterion to test the truth."

"Intellectuals are a part of the working class."

"Science and technology are productive forces."

"Enliven the economy at home and open the door to the outside."

All these constitute spiritual civilization--the most glorious spiritual civilization of all mankind at present.



They are aimed at bringing to a conclusion "taking class struggle as the key link," the introduction of economic reform, and the promotion of the four modernizations program in coordination with each other.

But the coordination projects still need consolidation and development.

The main system is not yet complete. As for the subsystems, some are in their first stages, while others are still nonexistent. What causes even greater anxiety is that some subsystems are remnants of the main system of "taking the class struggle as the key link," and often interfere with or resist today's main system.

I feel that humanitarianism is a component part of the main system in coordination projects. At least, it should be a most important subsystem engendered from the main system and continuously providing nutrients and vitality to the latter.

By rejecting humanitarianism in spiritual civilization or opposing its coordination with the current economic reform and four modernizations program, we will lose a strong theoretical fulcrum and psychological base.

If man is not the center, not the goal, if one cannot talk about man's dignity and man's value, if one feels that humanitarianism belongs to the bourgeoisie, if one deems that it produces at best only a minute impact on all aspects of socialist morals, if one cannot mention human nature, human feelings and human rights, let alone exploring and discussing the elements, then, was it correct to hold the 3d Plenary Session of our party's 11th Central Committee? Was it correct for us to bring to a conclusion "taking class struggle as the key link?" And was it correct for us to enliven the economy at home and open the door to the outside world? Was it correct for us to propose "one country, two systems...?"

Is not the purpose of economic construction to make the country rich and strong, so that by means of their honest labor in a peaceful environment, people can have good food, clothes, housing and recreation, and everyone can live like a real person, a fully developed person?

The individual, not concepts, is the goal.

Concepts should serve the individual, not vice versa.

Marxism was introduced to liberate and serve the Chinese people.

In seeking their own liberation, the Chinese people have developed Marxism.

If certain immutable principles above and beyond the individual, the abstract principle that "the party will not turn revisionist and the country will not change color," the abstract "correct world outlook" and the abstract "anti-corrosion," are the goals, then we basically don't need economic construction, let alone the policy of enlivening the economy and opening to the outside world.

All we need are 7 May cadre schools," reclaiming land from lakes, "fighting selfishness and repudiating revisionism," mass critical activities of all kinds, and "revolution in the depth of one's soul." Do we need commodities and currencies? Rationing basic living necessities will be good enough. Do we need household appliances? Guard against the corrosive lifestyle! Why go to school? The more knowledge someone has the more reactionary he becomes! As for the stagnation or even collapse of production, what is so unusual about it? What is so unusual if some people die of starvation...?

In fact, if this logic is expanded, we don't even need the "Marxist" label, because China's theoreticians long ago prepared eight words which can serve as the standard for all ages:

"Death by starvation is a minor event; but the loss of integrity is a major event."

"This is the most thorough and unequivocal condemnation of humanitarianism.

Commemorating the 30th anniversary of the "double-hundred" policy is of course a good thing.

However, after reading articles of the many people who have been "through it all," I can't help feeling bewildered.

I think of Li Guowen [2621 0948 2429]. He was only 26 years old when the "double hundred" policy was introduced. Inspired by the "idea of letting one hundred flowers bloom," he submitted to the RENMIN WENXUE editorial department his original manuscript which received serious attention of Qin Zhaoyang [4440 0340 7122] and others. The July 1956 issue of the publication featured "Reelection." In barely a month, he was engulfed in the "anti-rightist movement." "Reelection" was labeled as a major poisonous weed and the author classified a "rightist." Thus began his more than 2 decades of labor reform. "Reelection" consists of 7,000 plus words, and his labor reform of 20 years amounted to 7,000 plus days. He paid the price of one day of labor reform per word.

Any mention of "double hundred" can only revive his bitterness, pain and grief.

I have never seen any bold argumentative article inspired by under the "double hundred" that has produced favorable results or brought back sweet memories.

When the "double hundred" policy was launched, there was hope that it would create a vibrant and rich phase, but it became a means to launch a class struggle.

During the historical phase of "taking class struggle as the key link," the "double hundred" was its complement. Literally, "double hundred" means "bloom-ing together" and "contending," but its interpretation was filled with the acrid smell of gunpowder as "loosening and tightening," "fragrant flowers and poisonous weeds," and "proletarian and bourgeois schools." Afterward some people came right out and said: "The purpose of the "double hundred" policy is to lure the "snakes" out of the holes.



What was interesting was that literally the "double hundred" policy did not smell of the gunpowder of class struggle. Therefore, when it was first launched, people from one faction were against it, on the grounds that it would create an opportunity for poisonous weeds to come out of the steamer! ("Poisonous weeds coming out of the steamer" is one of the most peculiar phrases in China's political phrases. Weeds are plants. How can they be packed in a steamer, and how can they come out of it?)

Thereafter, "double hundred" had its ebbs and flows. At times it was being pushed aside and at times it was being looked at again. Now it is being looked at again. Perhaps this time it will not be an "open conspiracy," not a trap, but a sincere desire for blooming and contending will be manifested.

Nevertheless, from the bitter lessons of the past, we know that others often wrote such statements as: "We must implement a genuine policy of '100 flowers blooming and 100 schools of thought contending.'" What is genuine and what is not? Was it a genuine policy in the past or was it a sham?

I have a simple suggestion: "Since '100 flowers blooming and 100 schools of thought contending' was for a long time a complement to 'taking class struggle as the key link,' people have formed some thinking patterns and emotional attachments of the intensions and extensions of 'double hundred' in their minds. Today when class struggle is no longer the key link and we are pursuing economic reforms and even political structural reforms, why do we have to hang on to it? The words merely form a sort of crude metaphor and, since it can hardly serve as a complement to today's economic reforms, why don't we simply put it aside and decide on something else in scientific and cultural development appropriate to economic reforms? For instance, why don't we simply say "creative freedom and academic democracy?" Of course, "double hundred" can still remain as a sort of customary term, but not as policy language.

Actually, in terms of wording, "100 flowers blooming and 100 schools of thought contending" also has its flaws. Some people have already pointed out: "Why are only flowers, but not grass mentioned? Grass is not necessarily a poisonous weed. Even poisonous weeds can be ornamental and at times have medicinal values. It is more beautiful than flowers and more beneficial to man.

I feel that "100 flowers blooming" stresses only blooming, and lacks tolerance. Under certain specific conditions, writers and artists should in fact be permitted to stop their work in literary and artistic creation and stop "blooming." True creative freedom should include the freedom from being coerced to be creative and the freedom of not being creative. In the early days of the "Cultural Revolution," for instance, some writers and artists were knocked down and persecuted and afterward assigned to the "three-in-one creative group," forced to create and to "bloom." If they refused, they were again knocked down and struggled against.

It is the same with "100 schools of thought contending." Under certain specific conditions, writers and artists should be permitted to take no part in contending and responding. In other words, writers, artists, scientists and scholars should have the freedom of silence. In the past, whenever a "contending" campaign was launched, anyone connected with the subject was hauled out to make statements and write articles. Refusal was labeled "anti-contending," and even condemned for "deviation from Marxism." People were forced to defend their stands, write articles to show that "I have not deviated from Marxism." No silence was permitted.

I find such practices absurd. A person's standpoint may be rejected or criticized, but he should not be condemned.

I firmly believe that, in spite of the difficulties and complications which may arise, the Chinese people, especially intellectuals, will finally enjoy freedom of thinking and speech, of literary and artistic creation, and of academic democracy.

6080/8309

CSO: 4005/347

## WANG RUOSHUI'S, ZHANG XIANLIANG'S VIEWS DISCUSSED

Hong Kong CHENG MING [CONTENDING] in Chinese No 108, Oct 86 pp 65-66

[Article by Huai Bing [2037 0393]: "Writers Call for Freedom of Creation"]

[Text] The world of letters on the mainland has been a very lively scene recently. While there have been no literary creative works of a breakthrough nature, several articles on literature and art have appeared which say things others have not had the courage to say so far. By smashing old theoretical shackles, they have caught the public eye. Among these articles, it is Wang Ruoshui's [3769 5387 3055] "The Freedom of Literature and the Literature of Freedom" (published in JIEFANG RIBAO, 4 June 1986) and "The Double Hundred Principle and Civil Rights" (HUASHENG BAO, 8 August 1986, reprinted in CHENG MING, No 107), and Zhang Xianliang's [1728 6343 0081] "Social Reform and the Flourishing of Literature--A Letter to Wen Yuankai [3306 0337 0418]" (WENYI BAO, 23 August 1986) which caused the biggest stir.

## Wang Ruoshui's Theory of Freedom of Literature

Wang Ruoshui is a philosopher, but his concern for literature does not take second place to that of a writer. He spoke about literature and man's alienation at the national literature seminar held by institutions of higher education in Lushan in August 1980. In his speech, he noted that alienation exists in a socialist society, an observation nobody else has made before. Literature should protest and criticize the alienation in real life, instead of endorsing and praising it. Genuinely free literature and art should not be controlled by money or power. In the past, writers and artists on the mainland trimmed their creative sails in accordance with what was popular with the authorities above; instead of reflecting the real life of the people and conveying their joy and sorrow, literature was uniformly laudatory. This kind of alienated literature is not free literature. Wang Ruoshui made this point just when neo-realistic literature was flourishing. His position at the time (deputy editor-in-chief of RENMIN RIBAO) unquestionably did much to spur the subsequent development of neo-realistic literature and art. In 1983 Wang Ruoshui was dismissed, which some people attributed solely to his having written a series of articles on humanism. That is not totally true: I believe the dismissal was more related to the fact that the articles unleashed a concern with humanism in literature and art. No historian of modern literature can ignore this kind of profound impact and towering achievement.

Wang Ruoshui's commitment to disseminating humanism was not diminished at all after his dismissal. Apart from constantly defending his ideas, he also champions "freedom of creation" for artists and writers vocally. In "Literature of Freedom," he takes issue with the arguments about "freedom of creation" in the commentator's article "Freedom of Creation and the Sense of Social Responsibility of Literary and Artistic Workers," published in WENYI BAO on 8 February 1986. The commentator's article voices dissatisfaction with the call for freedom of creation put forward at the fourth congress of the China Writers Association and the relaxed, liberal atmosphere it ushered in. It fiercely attacks "some comrades for showing various degrees of indifference to and contempt for the four modernizations and the exciting reality of reform after the fourth congress of the China Writers Association. Some comrades deviate from the practice of socialism and are given to advocating abstract humanism and spreading social pessimism that holds all social progress in contempt and suspicion, even playing up man's sexual instincts in isolation from social contents. Others tolerated for a while the deluge of vulgar literature ..." At the same time, the commentator lacks the courage not to endorse writers' and artists' urgent demand for "creative freedom." So he seeks to deceive his readers with misrepresentation. The article has this to say about "creative freedom": "Only when a writer or artist plunges into the thick of the real-life struggle of the masses; observes, understands, participates in, appreciates, and explains social life from the Marxist perspective and with the sensitivity of the artist; and grasps the details of social life, can he achieve real creative freedom and scale the lofty heights of artistic creation." (Exactly the same hackneyed stuff as Mao Zedong's speech at the Yanan literary conference!) If we examine this statement carefully, we can easily see that the commentator confuses freedom in the philosophical sense with freedom in the social political sense. From the perspective of the constitution and the policies and principles of the Chinese Communists, the so-called "freedom of creation" means political freedom. Wang Ruoshui argues that only when they have creative freedom can artists range far and wide in the expansive world of art.

In "Literature of Freedom," Wang Ruoshui also takes the commentator to task for his inconsistency. On the one hand, the commentator declares his "opposition to interference by anybody." On the other hand, he asserts that in reality "there is no absolute, unconditional, or abstract creative freedom." Wang Ruoshui quotes Articles 51 and 38 of the constitution and says that one would certainly overstep the bounds of creative freedom and violate the constitution and the law when one carries out counterrevolutionary propaganda or includes disgusting obscene descriptions in his writings. When that happens, legal or administrative intervention is naturally called for. But he argues that repeating years-old conclusions such as there being "no absolute, unconditional, or abstract freedom" is meaningless because he has not heard of a single writer or scholar demanding such a thing. The problem is not whether or not there are limits to freedom. The problem is where to draw the line and what will determine where the line is drawn, the constitution and laws or the "wishes of the powers that be." To talk in the abstract about opposing any human interference is to make empty promises because when the chips are down, they can always haul up the argument that there is "no absolute freedom." Wang Ruoshui is convinced that Chinese



writers do not want any privilege outside the bounds of the law and free from any interference. They are only opposed to illegal, violent, and capricious interference.

Wang Ruoshui discusses at length the relationship between the constitution and the writer in his article "The Double-Hundred Principle and Civil Rights." He recalled the first constitution drawn up in 1954 where Articles 87 and 96 provided for "freedom of speech, publishing, association, and assembly" and stipulated that the state "shall protect the freedom of the people to conduct scientific research, literary and artistic creation, and other cultural activities." After promulgation, however, the constitution was never seriously implemented for almost 30 years. The leaders said a word, and it was abolished. The new constitution of 1982 includes similar provisions but they have not been really put into effect over the past few years. People cheered and applauded when Hu Qili [5170 0796 4539] called for "freedom of creation" at the fourth congress of the China Writers Association. This proves that the constitution does not carry as much weight as the words of a leader. This is just not right. The constitution is the basic law of the land and the highest authority in the nation. Freedom of creation is a civil right, not something bestowed on the people or nullified at will by a certain individual. Thus the most important thing was what Deng Xiaoping said on the eve of the 3d Plenary Session of the 11th CPC Central Committee in 1978: "To protect people's democracy, we must strengthen the rule of law. We must institutionalize democracy and write it into law so that it will not change as leadership changes or as the leadership's outlook and focus change." Wang Ruoshui raises a very important point here, namely that the so-called "freedom of creation" will always remain idle talk if the rule of man by the CPC is not thoroughly overhauled, if the rule of law is not established, and if the writer does not think in terms of the rule of law but knuckles under and applauds the rule of man.

#### Zhang Xianliang's Theory of "Let A Hundred Schools of Thought Contend"

In "Social Reform and the Flourishing of Literature," Zhang Xianliang discusses freedom of creation from the perspective of the extent to which the "double-hundred principle" has been implemented. In his opinion, Chinese literature has thrived in recent years in a way never seen since the May 4 movement. He attributes this to the implementation of the "double-hundred" policy. Thus a more scientific understanding of the "double-hundred" principle will have a decisive influence on the development of literature in the future. As he sees it, "let a hundred schools of thought contend" refers to thinking, ideology, and learning, while "let a hundred flowers blossom" refers to art and literature. Whether the "hundred flowers" can blossom depends on whether the "hundred schools of thought" are allowed to contend. A "hundred of schools of thought" contending is a prerequisite for "hundred flowers" blossoming. The ability of a "hundred schools of thought" to contend without any fear and the freedom of all ideologies to compete on an equal level are the best yardstick for measuring social freedom. He agrees with Mao Zedong that despite the so-called hundred schools of thought, there are only two schools--the bourgeoisie and the proletariat. Previously "contending" was limited to arguments between the different schools and factions inside the proletariat, arguments concerned with the most trivial things. This kind of

"contending" does nothing to further understanding and advance scholarship. In accordance with the principle that everybody is equal before the law and before the truth, we must allow the spokesmen of the bourgeoisie to speak out publicly as long as they do not incite rebellion and violent subversion and do not divide the nation. Zhang Xianliang emphasizes that he has in mind genuine bourgeois academic representatives; in the past most middle-aged intellectuals were branded "bourgeoisie." He argues that as Marxists, as dialectical materialists, we would feel lonely and isolated if we allow ourselves freedom of speech while denying our opponents the same thing. The supreme irony of Marxism would be for us to use the power we have seized to silence our opposition. From an overall perspective, he also observes that the principle of "double hundred" must be furthered and enriched in the historical stage of "one country, two systems." It would be unthinkable to allow the propagation of proletarian Marxism in the capitalist area (say, post-1997 Hong Kong), while criticizing bourgeois ideology, art, and literature as great scourges and prohibiting them in the socialist parts of the same nation. There may be special economic or political zones, but there should not and cannot be special ideological or cultural zones.

Zhang Xianliang's opinion was recently echoed by Secretary Xu Shijie [6079 1102 0267] of the Guangzhou Municipal CPC Committee when he addressed the third large seminar on cultural development strategy in Guangzhou (attended by Director Zhu Houze [2612 0624 3419] of the Propaganda Department of the CPC Central Committee.) He said, "As one of the open coastal cities and with its proximity to Hong Kong and Macao, Guangzhou boasts hundreds of Sino-foreign joint ventures and contractual joint ventures and houses the offices of several hundred foreign companies. It plays host to 3 million Hong Kong and Macao compatriots and foreign friends each year. Under these circumstances, cultural isolation is impossible. Moreover, Western culture is not totally vulgar and worthless. We should trust the people to be able to absorb and learn from it and improve themselves through cultural opening."

I believe that if the Chinese government accepts Zhang Xianliang's viewpoint and allows the open airing of bourgeois scholarship and ideology, art and literature will definitely flourish. This is because the threat of being labeled advocates of "bourgeois liberalization" still hangs over the heads of writers today, a label some left-thinking people are only too willing to slap on others whose ideas they are not used to.

An atmosphere of free speech has come into existence everywhere on the mainland. In this much freer environment, artists and writers should be able to create even more stirring works.

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## NEW CHARACTERISTICS OF CIVIL DISPUTES DESCRIBED

Beijing ZHONGGUO FAZHI BAO in Chinese 3 Jan 87 p 3

[Article by Hou Shuiping [0186 3055 1627]: "New Characteristics of Civil Disputes In Our Country"]

[Text] Along with the development in depth in our country's urban and rural economic reforms, a number of changes have occurred in the substance of civil disputes. Earnestly studying the changes under the new situation has an important bearing on raising the efficiency of mediation work and enhancing its role in uniting the people and serving reform and the four modernizations.

First of all, new disputes have emerged.

Generally speaking, they are as follows:

1. Disputes Pertaining to Commodity Production. As a result of economic reform, many peasants in small-scale farming and urban unemployed have joined the ranks of commodity producers, resulting in more economic contacts, an accelerated pace of life, new concepts of value, and as a result disputes connected with commodity production that were unseen in the past, e.g., disputes in partnerships, resource pooling, products processing, and commercial shipping; in real estate leasing and loans; in commodity trade (quality, quantity, and time and method of payment and delivery); and in the supply of information on production, operation and marketing. Meanwhile, with political relaxation, disputes between private employers and employees and between master craftsmen and apprentices have also gradually emerged.
2. Disputes in the Mode of Knowledge. As the needs and demands of the masses reached new heights, many new things have emerged in the urban and rural areas, and so have corresponding new disputes. Examples include disputes pertaining to private nurseries and private tutors; disputes in borrowing, returning and damaging books belonging to private libraries and cultural and recreational facilities; and in scientific and technical cooperative undertakings between specialized households and other peasants.
3. New Disputes Characteristic of Rural Areas. Since the introduction of the responsibility system, new disputes have emerged, e.g., disputes in land contracting and subcontracting and in engaging others to till one's land;

in boundaries, water use, and right of way of contracted land; and in large-tool leasing and hiring help. Disputes in using land for housing and in construction have also increased. With the growth of brigade- and team-enterprises and individual enterprises, disputes among rural workers, similar to those in towns and townships have also emerged. The emergence of specialized shipping households and increase in peasants' motorized vehicles have led to disputes pertaining to vehicles (such as traffic accidents).

Second, new elements have been injected into old disputes.

In the past, most domestic quarrels were due to the lack of food and clothing--"poverty quarrels." Today, with the development of the commodity economy, women are having an ever greater impact on economic activities and their status has risen. Dissatisfied with their lives at the stove, many of them have come into conflict with traditional feudal male chauvinism. Marital relations and higher spiritual demands have led to the gradual increase in emotional conflicts. The "cohesive agent" in traditional marital relations has gradually lost its efficacy and instances of extramarital activity have increased correspondingly, resulting in new marital disputes. As a result of commodity production and competition, the status of knowledge and skill is increasing in socioeconomic activities and in the family, leading to fierce conflicts over the traditional concept of the family head as the core. Conflicts between father and son and discord between mothers- and daughters-in-law are stamped with the imprint of the times. In marriage, the vast numbers of young people are becoming ever more dissatisfied with the old habits and old forces, unwilling to remain their slaves. Therefore, disputes on marriage contracts are growing ever more numerous.

Third, mediation has become more difficult.

Besides new disputes, there are also greater difficulties with mediation for the following reasons:

1. The range of disputes is continuously expanding. Social activities in the past were mostly confined to the family and the neighborhood, and few people ventured beyond the village and the brigade. Today, along with the growth of commodity production, urban-rural combines, and multi-brigade combines, specialized shipping households, and itinerant peddlers have emerged. The changes and the expanded scope in the people's activities have brought new difficulties to investigations, to the ideological work of those handling disputes, and to the settling of disputes.
2. Disputes involve more knowledge and specialization. Disputes in modern commodity production, tools of shipping, scientific and technical cooperation and economic contracts all entail expert knowledge and increase the difficulties of mediation.
3. Concepts are gradually changing. Reform of the economic system has led to changes among the masses. Traditional customs and moral concepts are no longer effective ideological tools for persons engaged in solving today's disputes.

In view of the above, we can only aim at developing the people's mediation work to a higher level before we can successfully hold on to this "first line of defense."

## MARXISM AS CORE OF CPC IDEOLOGY EXPLAINED

Harbin FENDOU in Chinese No 1, 1987 p 35

[Article by Shi Yan [6108 6056]: "Why Has the Party's 'Resolution Replaced 'Communism As the Ideological Core' in the Socialist Spiritual Civilization Constructions"]

[Text] The 12th Party Congress developed its viewpoints in the "Resolution" of the 6th Plenary Session of the 12th Party Central Committee which replaced "communism as our ideological core" by declaring that "Marxism is the guide for socialist spiritual civilization."

We must realize that there are several meanings to the term "communism": it may represent a social doctrine, or a system of ideas; or it may represent a social system, or a historical movement toward a communist social system. Even when used to represent a social system, the term "communism" may specifically mean the advanced stage of communism which practices "from each according to this ability and to each according to his needs"; or it may include all social systems in the preliminary stages of communism, including the socialist system. Because "communism" can have so many different meanings, any misuse will lead to ideological confusion. For example, communism as a system of ideas can be interpreted as a system compatible with the advanced stage of communism, but it can be interpreted to include ideas compatible with the socialist system too. Without clear explanations it is easy to confuse the ideologies of different stages of social developments and cause errors in the spiritual civilization constructions. In his "Theory on the New Democracy," Mao Zedong discussed this same issue: at that time China was in the midst of the new democracy revolution, Mao said: "As far as our national culture is concerned, it is wrong to assume that as a whole the present culture is, or should be, a socialist culture. To do this is to confuse the communist propaganda with our present program of action because it mistakes the utilization of the communist stance and methodology to observe problems, to acquire knowledge, to handle matters, and to train cadres for the nation's educational and cultural principles in this revolutionary stage of Chinese democracy. A national culture of socialist substance must reflect socialist politics and economics. Our politics and our economy have socialist elements, and they are a reflection of the socialist elements in our national culture. For society as a whole, however, we have not yet established overall socialist politics and economics, and therefore we have not yet acquired a complete socialist national culture." Mao went on to say that "the communist

ideological system and social system should be differentiated from the new democracy's program of action; the communist theory and method of studying issues, acquiring knowledge, handling problems, and training cadres should be differentiated from the principles of the new democracy in our national culture: we must never confuse the two." This kind of reasoning still offers meaningful guidance.

The present historical conditions in China mandate that the "Resolution" should no longer mention "communism as the ideological nucleus" in the construction of the socialist spiritual civilization. We are still in the preliminary stage of socialism; not only must we practice "to each according to his work" and develop the socialist commodity economy and competition, but we must persistently develop other economic factors under the premise whereby public ownership still plays the major role and encourage some people to become rich, with the objective of achieving prosperity for all. We must not impose the standard of communist ideals and communist morals on all the people; we must not demand of the people in the same way we demand of the communist party members and the progressive elements. There was a time in the past when we were confused about the preliminary stage of socialist society. We neglected the difference between socialism and communism and neglected the multiplicity of the people's ideals; we ignored basic socialist conditions and the level of consciousness of the people as a whole; and we made unrealistic demands on the people, and we meddled in egalitarianism and "poverty transitions" and tried to disgrace capitalism: they brought ill consequences to the socialist constructions. The "Resolution" summed up these historical experiences and raised our level of understanding.

Although the "Resolution" does not adopt "communism as the ideological nucleus" it does not mean that we have abandoned communist ideals, that we no longer struggle for communism, or that we no longer amplify the spirit of communism. The "Resolution" clearly points out that "the highest ideal of our party is to establish a communist society based on the principle of 'from each according to his ability and to each according to his needs.'" It emphasizes that the highest ideal lies in the Communist Party members and the progressive elements as our source of strength and our spiritual support. It integrates the progressive demands with the popular demands by "letting our common ideals mobilize and rally the people of all races" so as to arouse effectively the people's enthusiasm for realizing communist ideals and accomplishing the present socialist constructions.

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SOCIALIST FREEDOM, LAW DISCUSSED

Beijing ZHONGGUO JIAOYU BAO in Chinese 13 Jan 87 p 3

[Article by Zhao Jie [5128 1015]: "Freedom and Law"]

[Text] Today, university students are hotly debating the issue of freedom and the law; many set one against the other, assuming that to obey the law is to sacrifice personal freedom and insisting that in preserving personal freedom they will inevitably violate the law. This is incorrect.

Law and freedom may have conflicting aspects, but they also have unified aspects. We should not broadly state that laws guarantee freedom or laws restrict freedom. In general, laws are class based; they always give expression to the wishes of a specific class; they guarantee the freedom of a specific class; and for those who oppose that specific class, laws can become a shackle. Furthermore, the wishes of a class may not be the wishes of every member of that class: if a certain member identifies with his class, he will consciously obey the law, and his free will is identical to the legal standards; on the other hand, a member who lacks a class identity will always feel that the laws are a coercive force, that they are the antithesis to his free will.

Freedom is a historical definition. The level of freedom is determined by the level of people's understanding of nature and of society and by the improvements they have made on nature and society. For that reason, freedom has specific attributes; it is not something abstract. Different times, different societies, and different classes have different demands on freedom and different standards of freedom. The bourgeoisie often depicts capitalist freedom as the ideal mode of freedom for all mankind, but in fact it is just the product of the historical development of a specific class and the kind of freedom demanded by that class. Even though that mode of freedom has progressive effects in the history of mankind, it is not the pinnacle of freedom. As society develops, this kind of freedom will lose its glory, and eventually it will have to yield to a higher level of freedom. Capitalist freedom is only compatible with the capitalist system of private ownership and the capitalist system of laws: these are the limits to that kind of freedom. No matter how much nominal freedom a capitalist society allows its people, it will never allow them to violate its system of ownership, and this, to the proletariat, is the greatest lack of freedom.

There are essential differences between socialist freedom and capitalist freedom. Socialist freedom is a mode of freedom in a higher level of social development. Basically, this freedom liberates the people from the bondage of the capitalist system of private ownership and the capitalist system of laws. Therefore it is more advanced than the capitalist form of freedom by a historical era. Some of our comrades fail to see this essential difference when they observe freedom: they only see the rituals of freedom and inevitably they are beguiled by the superficial phenomena of capitalism.

The socialist economic system is the foundation of socialist freedom, and the socialist legal system is its fundamental guarantee. Therefore, socialist laws are identical to what the people demand of freedom. Without socialist laws there can be no socialist freedom. If the socialist laws are sabotaged, the people's freedom will be ruined. Therefore, in order to have freedom we must consciously respect the socialist laws and preserve the dignity of the law. We must recognize the inevitability and the rationality of the socialist laws, and we must regard respecting the law and preserving the law as our personal responsibility and turn them into our personal wishes and demands. Then we will find ourselves within the boundaries of the law, but not restricted by them, and we will feel free; otherwise, we will lose our sense of freedom. Socialist freedom also has its limits, and the socialist law will not allow people to violate this limit in order to protect the freedom of the majority.

At present, China's socialist legal system is still imperfect, and the superiority of socialist freedom has not yet been fully manifested. Therefore it is incompatible with what the people demand of freedom in some respect. But this is not a basic antagonism; this problem can be solved through continuous reforms and constant improvement of the legal system. We must not act hastily; we must not abandon the socialist laws and adopt the capitalist form of freedom instead. Throughout the history of mankind, law and freedom have never been absolutely identical; they constantly contradict each other and adjust to each other, are always moving in cycles, and are always developing. Even under socialist conditions the two can be identical only in principle, and even that can only be achieved through constant contradictions.

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NECESSITY OF RESTRICTIONS ON FREEDOM PROPOUNDED

Changsha HUNAN RIBAO in Chinese 10 Jan 87 p 1

[Article by Shi Niu [1597 3662] under the rubric "Weekend Essays": "Comments on 'Restrictions'"]

[Text] Nowadays people associate "restrictions" with leftist tendencies, rigidity, and other old concepts. It is fashionable to write about and talk about "throwing out all restrictions." People with ulterior motives use this opportunity to peddle their sinister ideas.

All these prompted me to propose some not so fashionable arguments.

Admittedly, in this era of reforms we must throw away those old conventions which stand in the way of reforms, otherwise we will only follow old routines and there will be no new breakthroughs. But when old restrictions are thrown out, new restrictions are formed: this can go on forever.

Everything in this world is related to each other and interacts with each other; everything has boundaries. For example, democracy is conditioned upon the law; freedom is conditioned upon discipline; job performance is conditioned upon the worker's energy; agricultural output depends on the natural environment; the level of consumption is determined by material availability, and so on. All these conditions are restrictions. Some people admire and glorify Western democracy and freedom, but in fact Western democracy and freedom are clearly stamped with class brands: they are bound by bourgeois laws, they are manipulated by money, and they are narrowly restricted.

Restrictions come in all shapes and sizes and they are constantly developing and changing. Accompanying the progress of society, some restrictions need to be improved, and others should be replaced. We should not assume that all restrictions must be eliminated. Instead, we should seek truth in facts and adopt a scientific attitude; we should separate those restrictions which should be thrown out from those which should not yet be removed and those which should be improved but never thrown out: avoid "cutting with a single stroke of the knife."

In 1961, in a speech delivered at the Literature and Art Symposium and the Feature Film Productions Conference, Comrade Zhou Enlai said: "Marxism has

its restrictions too; we are not universally against all restrictions, and our perimeter is extensive." This broad perimeter is the four basic principles, the root to the founding of the party and to the founding of the country; it is tied to the fate of the Chinese nation and bound to the interests of its 1 billion people; and it is our lifeblood and must never be thrown out. If we throw out this "restriction," not only will we suffer the consequences, but our decendents will suffer unspeakable consequences. Today some people use the demand for democracy and freedom as excuses to meddle in bourgeois liberalism; they vainly attempt to throw out the four basic principles. We must never lower our guard against this ideological trend.

Serious matters prompt serious thoughts. When we talk about throwing out all sorts of restrictions, we must recall Lenin's advise: "Take just one more step, one small step in what seems to be the right direction, and truth will turn into a mistake."

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## STUDENT UNREST, BOURGEOIS LIBERALIZATION LINKED

Hangzhou ZHEJIANG RIBAO in Chinese 17 Mar 87 p 4

[Article by Li Zhe [2621 0772]: "Students Misled by Advocates of Bourgeois Liberalization"]

[Excerpts] Whether or not they have taken part in the "student unrest," young people these days are seriously studying Central Committee documents and engaged in a calm reflection. That is excellent. From our private contacts and conversations with young people, however, we understand some of them are still reluctant to accept society's evaluation of the "student unrest." They do not recognize it was bourgeois liberalization that prompted students to march in the street. Some even called the latest "student unrest" an "ideological enlightenment" aimed at "waking up the masses." Others said, "Throughout history student movements have always been correct." The implication is that the latest "student unrest" is also correct. Because of theoretical and ideological confusion and a temporary inability to come to terms emotionally, they fail to understand the current struggle against bourgeois liberalization, where fundamental political principles and political direction are at stake, claiming it is much ado about nothing. Others, full of misgivings, exhibit a fear of and indifference toward politics.

Why did some college and university students in Hangzhou take to the street? What directly touched off the demonstration was the desire to "support student unrest" in Shanghai. The latter, in turn, was in support of "student unrest" at China Science and Technology University, which was directly related to Fang Lizhi's preaching bourgeois liberalization. The cause and effect of this event was only too clear. Where student unrest broke out, organizations and news units were raided, traffic was blocked, the public's normal work, study, and living routines were disturbed, and social stability was affected, resulting in tangible quantifiable losses to economic construction as well as invisible unquantifiable losses. Young people who took part in the "student unrest" probably did not anticipate all of that, did they?

We would be superficial if we confine ourselves to looking for the immediate causes and making objective evaluations. Instead, we should place it in a specific historical context and time-frame and ponder on it more deeply. Why did "student unrest" spread to so many colleges in just a short period of time? Only by tracing the event to its root causes can we see that it was

indeed the handiwork of bourgeois liberalization. The tide of bourgeois liberalization ran rampant several times in recent years because our work at the ideological and political front has weakened. Take Zhejiang, for instance. People like Fang Lizhi have lectured at some colleges and universities in Zhejiang on various occasions, spreading mistaken viewpoints about liberalization and influencing none more profoundly than some young students. Many of their erroneous theories served as the theoretical basis of the recent "student unrest" and became the direct ideological triggering factor. During the "student unrest," there were numerous grossly wrong big- and small-character posters, slogans, and cartoons which targeted the four cardinal principles and rejected party leadership and the socialist system. Their language was sharp and they were highly explosive. Can we say they had nothing to do with the tide of liberalization?

Why do some young people refuse to admit the link between the "student unrest" and liberalization? Here is the basic ideological reason: many of them think they belong to an "independent-thinking generation," a generation which "thinks hard and then acts on it." They refuse to believe they are susceptible to influence and temptation. This raises one question: How should young students correctly perceive and evaluate themselves? Most university students today were born during the Cultural Revolution and grew up after the 3d Plenary Session of the 11th CPC Central Committee in an environment of social stability, political democracy, economic invigoration, and ideological ferment, which had a profound effect on them. On the one hand, unlike students of earlier generations, they are sensitive, have liberated ideas, and long to see China prosper and become powerful through its own efforts. On the other hand, they do not fully understand the country's past, present or future and lack the Marxist world outlook and methodology. They tend to go to extremes in their observation of things. On the one hand, they are eager for social understanding and respect and have a keen sense of participation. On the other hand, they have limited social practice, lack social experience, remain psychologically immature, and have problems reconciling their eagerness to take part with their actual inability to do so. On the one hand, they feel a sense of urgency about seeking knowledge and learning new things, and are given to making longitudinal comparisons. On the other hand, they cannot make comparisons and choices scientifically and often accept or reject things categorically. The moment they see the new problems and conflicts which have inevitably arisen in the course of reform, and the unhealthy trends in the party and society, they have trouble handling them properly. And when a number of people come along preaching liberalization, who pride themselves on their free-thinking and "outspoken" ways and propagate a host of specious viewpoints and a dazzling array of Western ideas in the guise of reform and opening to the outside world, some students are easily won over, unable to tell right from wrong. Take the latest "student unrest," for instance. We observed several student demonstrations from beginning to end and asked many participants these questions: "Where are you going today?" "What for?" "What sort of democratic freedom are you really after?" Most gave vague responses. Some said that not having lived through the Cultural Revolution, they did not know what it felt like to take part in a demonstration. They were there for the experience.



Influenced by Marxism and the October Revolution, China too launched an ideological enlightenment advocating "democracy" and "science" before and during the "May 4 movement." It spread Marxism, dealt a heavy blow to feudalism and laid the ideological foundation for the party's birth. We have consistently affirmed the great historical role of this kind of "enlightenment."

The question is whether or not the Chinese people today are still in an ignorant and backward state. Is there a need for another "enlightenment?" Young people, please consider this carefully.

Let's assume, for argument's sake, that some people do need "enlightenment." What should we enlighten them with? In our opinion, we should enlighten them with the most scientific thinking and most advanced culture. In other words, we should launch Marxist studies, propaganda, and educational activities, and disseminate scientific and cultural knowledge, all of which is exactly what the young people who advocate enlightenment lack. Many young people are interested in Nietzschean philosophy, Sartrean existentialism, and Freudian psychoanalysis and also know a thing or two about "Western" democratic freedom" and "multi-party politics." If we use this stuff as our enlightenment, it is clear they are not suited to China's conditions and will not be understood or accepted by the people. This is because the democratic system of capitalism and Western bourgeois ideology in all its variations are essentially adapted to the capitalist economic base, protect the fundamental interests of the bourgeoisie and are opposed to Marxism, even though they have been a progressive force to varying extents in history and some remain valuable for reference purposes today. If the Chinese people really accept this kind of enlightenment, then individualism, hedonism, liberalism, and mammonism worship will prevail and political parties will proliferate. There will be a rash of factions, theoretical confusion, ideological decay and, ultimately, social chaos and historical regression.

Perhaps some young people will argue, "We demonstrate in the street in order to call on the people to reform and arouse public political consciousness." Now that does not quite make sense. Who does not want reform, opening to the outside world, and democratic freedom? Do we need everybody to demonstrate in the street and chant slogans in order to show the firmness of his determination to reform and open to the outside world and the urgency of his demand for democratic freedom? Mind you, young people these days have this notion which just does not tally with facts (at least it is a misunderstanding): They seem to believe that only they themselves want reform, opening to the outside world, and democratic freedom and that people like Fang Lizhi are the champions of reform while all others are opposed to reform.

Why do some young people act like self-appointed "enlighteners" and assume that they are the only sober ones in a world full of drunkards? Why do they see the world around them as frightfully apathetic and consider themselves "drummers of the times" and "doctors in charge of curing the social pathology?" It all boils down to one thing: their self-importance. Certainly, it is not unusual for young students who have seen little of the world to harbor such ideas. Actually this is a common failing among young people in general.



Many young people subscribe to the "natural rationality of student movements," arguing that such movements have always been correct throughout history. They quote copiously from all sources, citing examples like the "May 4," "January 29," "December 1," and "May 20" movements as evidence of the correctness of their viewpoint.

We do not deny the glorious revolutionary tradition of student movements in China. Examples like those above are something we should affirm and be proud of. Today we must continue and further this revolutionary tradition. But we would like to ask the young people: What kind of era was that? In contrast, the present era is one in which the people are the masters, one when we build socialism with Chinese characteristics.

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CSO: 4005/574

## BALANCING SOCIAL DEMAND, SUPPLY TARGETED

HK080450 Beijing GUANGMING RIBAO in Chinese 25 Apr 87 p 3

[Article by Sun Guohua (1327 0948 5478): "Persist in Achieving a Basic Balance Between Gross Social Demand and Gross Supply"]

[Text] At present we have initially overcome the "overheated" economic situation which occurred at the end of 1984 and early 1985, and our production speed has become normal. The economic situation is good as a whole. However, there are still many latent unstable factors in our economy. The problem that gross social demand exceeds gross supply has not yet been completely solved. This is also a comparatively striking problem in recent macroeconomic management.

I. Whether We Can Achieve a Basic Balance Between Gross Social Demand and Gross Supply Will Affect Our Smooth Accomplishment of the Three Basic Tasks Covered by the "Seventh 5-Year Plan"

The three basic tasks covered by the Seventh 5-Year Plan are to deepen reform, promote construction, and improve people's livelihood. It is impossible to accomplish the three basic tasks without a good economic environment. Economic structural reform should be gradually carried out in a comparatively relaxed economic environment and under good social conditions. Major reform measures should be supported by state material and financial resources. When reform is carried out when demand excessively increases, and relations between various aspects in economic life are tense, we will encounter many difficulties. For example, with regard to reform aimed at smoothing out the pricing structure, it is difficult to maintain basic stability in the general level of commodity prices without ample material and commodity support. In particular, at present, when the old system is being replaced by the new one, it is impossible to truly establish macroeconomic management system without curbing the excessive increase in demand. Otherwise, this will slow the process of reform, aggravate the friction between the old and new systems, severely affect the macroeconomic policy decisions, and bring about a passive state.

Economic construction, key construction projects in particular, needs a large sum of funds. At present, the demand for investment is increasing vigorously and the general scale of construction is too vast. Less important projects squeeze out key construction project and nonproductive projects

squeeze out productive projects. In addition, the situation of overlapping construction projects and blind investment is still very serious. Under these circumstances, it is impossible to use limited state material and financial resources in a concentrated way. This will delay the state's key construction projects, aggravate uneven economic development, and severely affect our economic construction rate.

The improvement in people's living standard also needs a stable economic environment and state support in terms of material and financial resources. Under the condition that demand is increasing vigorously, a contradiction between the expansion of the supply of social commodities and purchasing power will occur. This will fluctuate market prices and adversely affect the enhancement of people's actual livelihood.

Therefore, maintaining a basic balance between gross social demand and gross supply is a necessary prerequisite for the completion of the three basic tasks of the Seventh 5-Year Plan.

## II. Imperfect Macroeconomic Management and an Irrational Economic Structure Are Reasons Contributing to the Continuous Increase in Demand, and the Task of Solving the Contradiction Between Supply and Demand Is Still Crucial

Compared to the continuous expansion of gross social demand during the Sixth 5-Year Plan we know that the situation was a bit relaxed 3 years ago. Starting from 1984, due to the fact that the supply of bank credit was out of control, a serious situation in which the amount of credit exceeded that of bank deposits occurred. There was also a problem of credit inflation. In the meantime, because of the fact that state financial resources were comparatively scattered, the proportion of funds not covered by the budget increased by a large margin. Although this was beneficial to arousing the enthusiasm of localities and departments concerned, macroeconomic control was affected. A phenomenon of irrational investment of funds and a balance of payments deficit at the central level occurred. In 1984 and 1985 we issued too much paper money, which was 430 percent and 320 percent higher than the average level in 1981 and 1982 respectively. A substantial boost in purchasing power in the society was thus urgently needed. In 1984 and 1985, the retail price index of commodities reached 2.8 percent and 8.8 percent respectively. Due to the fact that planned control of commodity prices was exercised in our country, the excessive increase in gross social demand was not fully reflected in commodity prices. But there was a lagging influence brought about by this excessing increase in demand. Commodity prices were higher in 1985 than in 1984 because of this lagging influence. Although we adopted macroeconomic retrenchment measures in 1985, we failed to immediately curb the excessively large financial expenditures. In February and March last year, loans in circulating funds were excessively provided. This further complicated the gross social demand and gross supply situation. Although various measures were adopted to control commodity prices, the general level of retail prices was still as high as 6 percent. It was obvious that under the condition of an imperfect macroeconomic management system, the dispersion of state finance and the excessive supply of bank credits were the direct reasons contributing to the excessive increase in social demand based on high purchasing power.

Another reason attributing to the excessive increase in demand was the irrational structure of supply and demand. The product mix failed to adapt itself to the changing supply and demand structure. As far as the means of production were concerned, certain kinds of raw and processed materials and facilities were kept in stock a long time. Undersupplied products severely affected the development of production. As far as consumer goods were concerned, those poor quality and high price products were unsalable. Our industrial structure was not developed in a coordinated way. The development of some industrial departments such as electrical power, the mining industry, raw and processed materials, components, and so on lagged behind the processing industry. Due to the fact that the product mix and the industrial structure were not in line with the demand structure, the gaps between supply and demand were thus widened. This aggravated the imbalance between supply and demand.

The above-mentioned two reasons were interwoven and made present macro-economic management more difficult. The financial dispersion and uncontrolled credits supported the production of oversupplied products and overlapping construction projects. This aggravated contradictions in the structure. The coexistence of the overstocking of products due to the irrational economic structure and the shortage of funds made the management of financial credits more difficult. In accordance with the requirement of the Seventh 5-Year Plan, during the first 2 years, emphasis must be placed on "curbing the excessive investment volume in fixed assets and controlling the excessive increase in consumption funds to ensure a basic balance between social demand and gross supply." Thanks to the efforts exerted in 1986 the contradiction between social demand and supply has been eased. However, we are still facing an arduous task in order to maintain a balance between social demand and supply.

III. To Persist in Achieving a Basic Balance Between Gross Social Demand and Gross Supply We Should Strengthen Management and Control Over Demand and Make Efforts to Improve Supply

To achieve a balance between social demand and supply we should simply take supply and demand as the point of departure. To solve this problem completely we should make efforts to improve and increase supply.

1. We should further achieve an overall balance, and improve macroeconomic control. While working out plans for economic development we should do the work well of maintaining an overall balance. Reform, construction and the improvement of people's livelihood should be carried out in accordance with the material and financial capacity of the state. Planning, banking and financial departments and others should pursue their policies and adopt their measures on the basis of overall balance. These plans and measures should be implemented in a coordinated way. Financial expenses should be cut. In the meantime, the financial capacity of the central authorities should be properly strengthened. The state budget should be worked out strictly in accordance with plans. Once deficits occur they should be

made up by issuing government bonds. Bank overdrafts should be avoided as much as possible. The scope to which bank credits are applied should be strictly controlled. In particular, loans for investment in fixed assets should be supplied strictly in accordance with plans. Issue of banknotes should be based on mandatory planning and overall balance and should be carried out with the approval of the NPC standing committee.

2. The investment volume should be resolutely curtailed and more guidance should be provided for consumption. In recent years annual growth in investment and consumption has substantially exceeded the targets set in plans. This has caused a sharp increase in both savings and consumption. Therefore, at present we should resolutely reduce the inflated investment volume. In particular, we should do everything possible to reduce the investment volume which is not covered by the budget so that growth in investment will not exceed that in national income. In the meantime, we should exercise control over consumption funds so that the growing demand for consumption will be partly offset through issuing government bonds. This will temporarily ease strains on market demand and ensure that the increase in workers' wages and other money income will not exceed the increase in labor productivity.

3. We should readjust the supply and demand structure to ensure proportionate development in the national economy. We should make full use of economic regulatory means such as finance, tax, credits, prices, and so on to readjust the product mix and investment structure, curtail the production of over-supplied products, and strengthen the weak links in the national economy so that supply structure will gradually conform with the demand structure and the national economy will develop in a coordinated way.

In a word, only by adopting effective measures and making efforts to achieve a basic balance between gross social demand and gross supply can we ensure the successful accomplishment of the tasks during the Seventh 5-Year Plan and further propel the entire national economy on the basis of long-term stable development.

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## ENTERPRISES DESIGNATED DECISION MAKING POWERS

HK040350 Beijing JINGJI GUANLI in Chinese No 2, 1987 pp 6, 7, 21

[Article by Liu Rixin (0491 2480 2450): "Points Worthy of Attention When Designating Large-Scale Enterprises With Independent Economic Decisionmaking Authority Under the State Plan"—edited by Lin Daojun (2651 6670 0689)]

[Text] In the past several years, the central authorities have promulgated a series of decisions and rules on expanding the decisionmaking authority of enterprises and also adopted many concrete measures touching on the external and internal sides of the enterprises. At present, small enterprises, collective enterprises and individual enterprises have already been fairly invigorated but large and medium-sized enterprises owned by the whole people still do not have sufficient vitality. Hence, the State Council has decided to rectify the basis of the 1987 reform of the economic structure by invigorating enterprises and further strengthening the vitality of large and medium-sized enterprises owned by the whole people. For this reason, effective measures will be adopted to provide enterprises owned by the whole people with fuller decisionmaking authority. Designating units of large-scale enterprise groups with independent economic decisionmaking authority under the state plan is a further step to strengthening the vitality of the large enterprises and an important link in pushing forward the reform of the planning structure.

Following the development of the socialist commodity economy, particularly after the State Council's promulgation in 1986 of the "31 articles" of regulations on further pushing lateral economic ties, a large number of enterprise groups appeared. These groups had large-scale enterprises as their backbone units, their operations reached across regions and departments and their system of ownership were different. The central authorities have designated these large-scale enterprises to possess independent economic decisionmaking authority under the state plan. This has helped in promoting the consolidation and development of these enterprise groups. So-called "separately designated under the state plan" refers to the state's planning departments directly contacting these large-scale enterprises, demanding certain planned tasks of them and, at the same time, providing them with corresponding conditions regarding the supply of funds and materials. For their part, the enterprises, under the preconditions of observing the state's various statutes and regulations and relevant economic policies, may independently and autonomously carry out production and operation activities and actively develop the socialist planned commodity economy.

An enterprise in this category must possess certain definite conditions: Its role must be one which has a bearing on the national economy. It may be a combination of one or several large backbone enterprises with internal relationships serving as the dragon head and comprise enterprises which are relatively strong economically and whose operations extend across departments and regions and which may even be under different ownership systems. For example, the "Dong Feng Motor Vehicles Industrial Enterprises Joint-Venture Corporation" and the "Liberation Brand Motor Vehicles Industrial Enterprises Jointly-Operated Corporation," which have recently been sanctioned to be designated in the state plan with independent decisionmaking authority and which respectively have the Second Motor Vehicle Manufacturing Plant and the First Motor Vehicle Manufacturing Plant as their dragon head, are each a large-scale enterprise group with over 100 enterprise component parts whose operations extend over certain departments and which are scattered throughout more than 20 provinces, autonomous regions and directly-subordinate municipalities. It may also be an independent large-scale backbone enterprise possessing a substantial scale of assets and production capacity. Or, it may be like a large-scale joint-venture enterprise under construction, that is, a capital construction group project, such as the aluminium, coal and electricity combine of the "Jiazu" area and the concentrate coal corporation's Sheng Fu Tong coalfields group project. If this category of group projects are given separate designation in the plan, then because in the construction process a newly formed economic entity has taken over unified planning and concerted development and is responsible for production and operation activities following the project's completion, its construction speed may be enhanced, construction and production may be linked together, and economic benefits may be increased greatly. The products of enterprises which are so designated in the state plan should have a bearing on the national economy and the people's livelihood and also those which are significant in production construction and in export foreign exchange earnings. These products should be of good quality, produced economically in designated quantities, have a development future, and possess strong competitive power in both the domestic and foreign markets. Designated enterprises should be up to a relatively high level of operation and management. In view of the fact that at present enterprises groups engaged in lateral economic ties include both closely-knit combinations of enterprises and loosely-knit combinations of enterprises, the scope of such a designation in the plan should be confined to the former combination of enterprises. This category of enterprises may carry out the system of the whole being solely responsible for its own profits and losses and the parts being separately responsible for their own profits and losses. They can be first rate legal persons and can also be second rate legal persons.

The above-mentioned designations of large-scale enterprises in the state plan should be full-scale designations comprising all major planning targets on economic and social development and not simply those separate and individual targets on production and construction. In the existing management structure of the economic plan, due to several historical changes, although certain large-scale enterprises are financially subordinated to localities (provinces or municipalities directly subordinate to a province)

the production plan is still under the care of the departments-in-charge, capital construction is arranged by the departments in consultation with the locality, and materials are directly supplied under another "name." This forms a poor state of affairs, incoordination, with several masters in the same house and badly hampers enterprises' enthusiasm. We should accept this historical lesson. The contents of the plan's designations should embrace such major planning targets as the output quantity of major products, investments and important projects in capital construction and technical transformation, distribution of materials under the state's unified distribution system, transfer of major products, export tasks, delivery of financial funds, labor wages, etc. At present, the major proportion of enterprises' financial relations are based in localities. In the Seventh 5-Year Plan the financial structure will be further divided according to the tax category into central taxes, local taxes and jointly-shared taxes by the central and local authorities and thereby clearly demarcating between central and local finances. In order to avoid change or a switch over in financial relations affecting the enforcement of designation in the state plan, certain plan-designated enterprises whose financial relations are centered in localities may temporarily maintain their current status and wait for a solution along with the reform of the financial and taxation structures. Since the plan-designated enterprises have already become economic entities, banks should speed up steps to reform their currency and financial structures to meet the urgent needs of these enterprises to merge funds.

This designation measure is an important reform of the economic structure. Management of enterprises designated by the state plan cannot continue to follow the old method. Rather, a new management structure must be enforced. In enforcing this designated state plan measure vis-a-vis large-scale enterprises, state planning departments should by no means imply the conversion of these enterprises into directly subordinate enterprises. The object is to give designated enterprises more decisionmaking authority in planning and management so that they can be extricated from the yolk of the departments and regions, operate independently, be solely responsible for their own profits and losses and better carry out self-transformation and self-development. The original departments and regions in charge should change their attitude of acting as "mother-in-law" toward designated enterprises and form a new relationship. The original departments in charge, by compiling industrial and trade rules, and technological policies should fix standard norms, guide designated enterprises in their production and operation activities, help them to put their relations with various sides in order and offer them advice, supervision and various kinds of services and provide relevant economic intelligence and information. For their part, local governments should actively perform and handle well the various kinds of basic facilities and relevant servicing work, thereby creating conditions under which enterprises designated in the state plan may develop. The various central departments and departments in localities in charge of material resources should continue to provide designated enterprises with needed materials and should never sever in the midst the channels of supply. The enterprises designated in the state plan likewise should actively take good charge of the processing materials supplied to them by central



departments or local authorities and other coordinating tasks entrusted to them. In the case of the distribution of scarce products made by enterprises designated under the plan, care should be taken to give local governments their due shares.

This designation of large-scale enterprises under the state plan is significant in economic development terms and in the reform of the planning structure. Insofar as the enterprises are concerned, this designation is beneficial in freeing them from the bondages of the departments and regions, expanding their decisionmaking authority and further enlivening their vitality. It is also beneficial in promoting the consolidation and development of lateral economic ties, the unified planning of joint ventures, and the enforcement of specialized cooperation. It is also beneficial in increasing product variety, which the market needs, and improving both the quality and quantity of their output. For example, in the case of the "liberation brand motor vehicles industrial enterprises jointly-operated corporation," if we were to follow the technological transformation program of the "1st motor vehicles manufacturing plant," calling for the development of light vehicles and reaching an annual production capacity of 60,000 units, then 10 years of construction time and 600 million yuan of investments would be required. But, through tightening ties, fully utilizing the plants and equipment of "the 1st motor vehicles plant," and the several jointly-operated enterprises in Jilin and Changchun, organizing specialized cooperation, making a rational division of work and avoiding redundant construction, over 200 million yuan in investments could be saved and the construction period shortened by 1 1/2 to 2 years. The Dongfeng Motor Vehicles Industrial Enterprises Jointly-Run Corporation, through making a rational division of work within the economic combine and carrying out specialized reorganization, will increase the number of varieties of motor vehicular products from only several scores of kinds before the combination to over 160 kinds subsequently. The formation of large-scale enterprise groups by industrial enterprises and the system of designating enterprises in the state plan, as mentioned above, have helped in promoting the integration of production and scientific research and promoting technological progress and the comprehensive utilization of funds. For example, the Sian Electric Machines Manufacturing Company currently applying for designation under the state plan is a combined production and scientific research firm that has already been in existence for over 20 years. It possesses strong scientific research capabilities and has already developed 100,000-volt direct current electric power transmission and transforming technology. Currently it is digesting and introducing internationally relatively advanced technology through transmitting and transforming 500,000-volt direct current electricity. If it is designated under the state plan it will play a bigger role in domestic electricity industries and trades and in both domestic and foreign markets. Enforcement of the designating enterprises plan helps in reducing the layers of control in the industrial management structure, carries out the separation of government and enterprise functions, and strengthens and improves macroeconomic control and management. For example, at present in our country's power equipment manufacturing industry, Harbin, Sichuan and Shanghai have each taken the "three great motivating powers" as the nucleus, separately formed three large-scale power station equipment



syndicates or groups, and furnished comprehensive power station equipment. If they are sanctioned to be designated under the state plan, then a "triumvirate" competitive situation will be formed and viewed from the standpoint of macroeconomic management of industries and trades, we can avoid the unhappy situation of a single enterprise having monopolistic control as seen in the case of the GDR Industrial Combine. Sichuan's Dongfang Power Station Equipment Syndicate now possesses one-fourth of the production capacity of the nation but its output is one-third of the power station equipment of the whole country. After being designated, the group will no doubt play a bigger role in manufacturing power station equipment. Moreover, insofar as the state is concerned, such a designation will find a new road for the reform of the planning structure. If the state's planning department can have over 100 large-scale designated enterprises, then planning work will be transformed. If there are fewer intermediate layers and stages, handling matters will be greatly facilitated. This is because designated large-scale enterprise groups will become the connecting link between macroeconomic and microeconomic relations. If the state's planning department has direct contact with large-scale enterprise groups, it can understand more intensively the conditions in basic-level enterprises, improve the scientific character of planning, and promote the healthy development of the planned socialist commodity economy.

Designating large-scale enterprises is a new task in the reform of the planning structure. Following the attainment of the necessary conditions, more large-scale enterprises will be designated in the state plan. Without a doubt, this will play an important role in invigorating large-scale enterprises, strengthening and improving macroeconomic management and control, and establishing a new structure of socialist macroeconomic management and control.

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## REFORM OF ENTERPRISE LEADERSHIP SYSTEM REVIEWED

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[Article by Pu Guorong [5543 0948 2837]: "The Political Structure Must Be Reformed If the Leadership System of Enterprises Is To Be Reformed"--edited by Lin Daojun [2651 6670 0689]]

[Text] Since the introduction of experimental points for the factory director (manager) responsibility system in May 1984, how has the work developed at these experimental points? What achievements have been realized? What problems have appeared in the experimental work? What reasons were there for these? And how are we to promote the deeper development of the reform of the enterprise leadership system? These are all questions of wide concern to people and we must analyze and inquire into them.

## I.

The development of experimental work for the factory director responsibility system has been uneven throughout the nation. Some cities have developed quite quickly and some cities have developed quite slowly.

1. There have been advances in experimental work, but development has experienced complications.

For a short period just after the experimental points started up, the work proceeded fairly smoothly. The work was marked by tremendous force, great momentum, fast development and fairly obvious experimental results. However, following the deeper and broader development of the factory director responsibility system experimental work, the contradictions which occurred in the replacement of the old system by the new became daily more obvious and complications appeared in the experimental work. In the fourth quarter of 1984, when there appeared in some enterprises the unhealthy tendency of indiscriminate issuing of bonuses and goods, some leading comrades stood up and criticized the factory director responsibility system, saying that this situation was a bad result of the factory director responsibility system, and proposed that control over enterprises be strengthened. At that time some of the autonomy which had just been handed down to the enterprises was gradually taken back. In July and August 1985 some comrades censured the decision-making power of factory directors. At the beginning of 1986 there

were different ideas put forward on the power of factory directors to employ personnel. For a time there was a lot of discussion about this and the factory directors were disturbed and placed in a dilemma. Only in September 1986 after the central authorities promulgated the "regulations on the work of factory directors in whole-people ownership industrial enterprises," "regulations on the work of basic-level CPC organizations in whole-people ownership industrial enterprises," and the "regulations on the staff and workers' congresses in whole-people ownership industrial enterprises" (below referred to as the "three sets of regulations"), did the situation gradually stabilize. The various complications experienced in the experimental work resulted in the work of reforming the enterprise leadership system remaining at the factory director responsibility system experimental stage for over 2 years.

2. The experimental work has realized some achievements but the achievements are insufficiently ideal.

The factory director responsibility system experimental work has realized certain achievements and in all the units where experimental work has been done quite well, pleasing changes have appeared in the mien of these enterprises. This has been mainly manifested as: 1) They have begun to establish a system of administrative guidance with the factory director as head. They have strengthened the relationship between production and operations and changed the situation where production and operations came under many different directors. A situation whereby there is swift decision-making, flexible guidance and high efficiency has appeared. 2) They have freed the enterprise party committees from day-to-day administrative functions and the center of the committees' work has been shifted to party-building, grasping ideological and political work, and implementing the party's policies. An initial change has been realized in the phenomenon whereby party and administrative functions were not separated; the party replaced the administration and the party did not manage the party. This has enabled the enterprises' party work and ideological and political work to be obviously strengthened. 3) They have further brought into play the roles of staff and workers' congresses and trade unions, motivated the enthusiasm of the vast masses of staff members and workers and brought into play quite well the participatory role of staff and workers in democratic management. 4) They have daringly used outstanding young and middle-aged technical and management cadres, enabling a large number of young and middle-aged cadres who understand production, are skilled in operations, able in management, and in their prime to take up leadership positions at various levels. This has created good conditions for the training and development of young, promising talented people who have drive for the reforms. 5) They have promoted the reform of the internal organizational structure of the enterprises, the reform of the cadre management system, the reform of the distribution system, the reform of the labor system, and the reform of the various systems of rules and regulations centered on the responsibility system. This has strengthened the vigor of enterprises. 6) Through a series of reforms of the enterprise leadership system and the enterprise's internal structure they have improved the structure of the enterprises' leading personnel, raised the quality of management personnel, promoted the modernization of management ideology, management organization, management methods and management measures

and speeded the pace of enterprise modernization. 7) They have promoted the development of the productive forces and the improvement of economic results. Not only has the product quality, materials consumption, and economic effectiveness of many experimental-point enterprises advanced and improved compared to the period before the experiment began, but they are also superior in an overall way to those of other enterprises. This fully shows that the new enterprise leadership structure accords with the demands of socialized large-scale production and of developing a socialist commodity economy, and has clearly strengthened enterprise vigor.

However, only a small number of enterprises have done well in this. The majority of enterprises are still in their ordinary situation. This has been especially so during the complications of development. Because of the lack of unity in ideological understanding and a vagueness about important questions, in the factory director responsibility system experiments in some enterprises, "deformities" have appeared. Although given the name factory director responsibility system, the system they in fact have is the system of factory director responsibility under the leadership of the party committee. This is not in accordance with the demands of the reform of the enterprise leadership system and has resulted in it not being possible to fully bring into play the superiorities of the factory director responsibility system.

## II.

An enterprise's leadership system is on the one hand determined by the level of development of the productive forces in that enterprise, the ownership structure of the enterprise and its modes of operation. At the same time, it is also subject to the direct restraints of the political and economic environment outside the enterprise. It is particularly subject to the direct influence of the political environment. Truly proceeding from the promoting of the factory director responsibility system and exploring the relationship between the enterprise leadership system and the political structure is greatly important in implementing the "three sets of regulations" promulgated by the central authorities and further doing well in the reform of the enterprise leadership system.

The influence of the political structure on the enterprise leadership system is mainly manifested in the following three aspects:

1. The nature of the enterprise leadership system is determined by the nature of the political structure.

Enterprises are the basic unit of commodity production and are the "cells" of the national economy. They are both the direct handlers of the productive forces and the concrete embodiment of the social relations of production. A country's political structure will inevitably be directly reflected in the basic units of social production. The political structure and economic structure of a socialist country determines the basic characteristics of the socialist enterprise leadership system. The leadership system of socialist enterprises must manifest the party's leadership, manifest the position of the laborers



as masters, and manifest the correct relationship between the state and enterprises. The leadership system of socialist enterprises requires that there be a concrete division between the duties and jurisdictions of the enterprise administration, the party and the workers within the enterprise, and that the relationships between these three are handled correctly. Thereby the socialist enterprise leadership system, in guiding ideology and principles and in its organizational leadership forms, responsibility structure and decision-making modes, is completely different from the leadership system in capitalist enterprises.

2. The changes in the enterprise leadership system are often determined by changes in the political structure.

From the development and evolution of our nation's enterprise leadership system we can see that the enterprise leadership system often changes following changes in the political structure. Just after liberation our nation confiscated bureaucrat-capital enterprises and established state-run industrial enterprises. In these enterprises military control and military representative systems were established. Later, factory management committees and staff and worker congress systems were established. During the period of the First 5-year Plan, in order to concentrate strengths and in order to carry out large-scale economic construction, centralized, unified administrative management and economic management systems were implemented, and in state-run industrial enterprises, the enterprises leadership system of "one-man leadership" was practiced. The Eighty Party Congress in 1956 decided to implement the system of factory director responsibility under the leadership of the party committee. In 1958, during the "great leap forward", the command of the party secretary was stressed and the system of factory director responsibility under the leadership of the party committee changed into "one-man leadership" by the party secretary. In 1961 the "eight-character policy" of readjust, consolidate, replenish, and improve was implemented and industrial enterprises restored the system of factory director responsibility under the leadership of the party committee. During the 10 years of turmoil enterprises implemented the system of "unified" leadership by the revolutionary committee. After the smashing of the "gang of four", the enterprises again restored the system of factory director responsibility under the leadership of the party committee. Following the implementation of the policies of opening to the outside world and enlivening the domestic economy, and the gradual deepening of the reform of the economic structure, the 3d plenary session of the 11th CPC Central Committee decided that state-run industrial enterprises would implement the factory director responsibility system. The history of the development and evolution of our nation's enterprise leadership system over the last 30 years clearly show the great influence the political structure has on the enterprise leadership system. When there are changes in various aspects and various links in the political structure it will lead to corresponding changes in the enterprise leadership system.

3. The reform of the political structure directly influences the reform of the enterprise leadership system.

Basically, the enterprise leadership system and the state political system are unified. In various senses the enterprise leadership system is a component part of the political structure and is a concrete manifestation of the political structure within the enterprise leadership system. However, under certain conditions in their development there are certain differences between the two. This is because: 1) The enterprise leadership system is not only subject to the restrictions of the political structure, but is subject to the direct influence of factors such as the development level of the productive forces, the ownership structure, and modes of operation. 2) The reform of the enterprise leadership system is only a reform within the limits of enterprises, while the reform of the political structure is a reform which involves everything. The range of things it involves is greater and the issues involved are more numerous. These differences objectively require coordinated reforms. The reform of the enterprise leadership system requires that the political structure is correspondingly reformed. Also, the reform of the political structure directly influences the reform of the enterprise leadership system. The two are conditional upon each other and influence each other.

### III.

From the period of experimentation work in the factory director responsibility system we have seen that some aspects and some links of the existing political structure do not accord with the demands of the reform of the enterprise leadership system and have presented definite difficulties in the experimental work. The outstanding manifestations are as follows:

#### 1. Party and administrative functions are not separated.

Enterprises have implemented the factory director responsibility system while the leading departments for enterprises have a party committee responsibility system. Also, enterprises have to carry out their work under the direct leadership of the leading departments and the party committees. This structure in which the old is being replaced by the new has revealed many contradictions in the experiments.

In terms of ideological understanding the implementation of the factory director responsibility system is not only a major reform of the enterprise leadership system, but is also, and foremost, a major reform of ideological concepts. Doing well in this reform requires that enterprise leaders correct their ideological deviations. Even more, it demands that enterprises' leading departments and their party committees change their traditional concepts. However, some comrades because of the influence of traditional concepts and the force of habit, have not yet caught up in terms of their own ideological understanding with the situation of reform. This is especially so when the deepening of the reforms are going to impinge upon their personal interests and they often adopt a reserved attitude toward the reforms. This lack of unity in ideological understanding by the enterprises' responsible departments is a major factor in the appearance of complications in the experimental work.

In terms of organizational leadership, because of the lack of unity in terms of ideological understanding it is very difficult to arrange strong and powerful leadership for the experimental work. The factory director responsibility system must divide the duties and jurisdiction of the enterprise administration, the party and the workers within the enterprises, and correctly handle the relationship between the three. However, within the enterprise, the administration, the party and the workers all have their own vertical leadership systems. Thus, establishing a leadership structure and a work group which is directly led by the higher-level party committee and government, in which each have their relevant departments participating and which can be responsible for overall planning, programs, leadership and coordination, and truly strengthening leadership work, are basic guarantees for the reform of the enterprise leadership structure. Also, lack of unity in ideological understanding often causes leaders in experimental work to be placed in a situation where they have no power. However, practice has shown that if we only have administrative management departments organizing experimental work by themselves it will be difficult to achieve a unity of ideology on all sides and to coordinate the relationships between the various sides, and to achieve satisfying results.

In terms of the cadre system, the factory director responsibility system gives the factory director the power to appoint and dismiss administrative cadres. This is an organizational guarantee that the factory director is able to carry out unified guidance of the enterprise's production operations and its administrative management work. It is also a major reform of the enterprise cadre system. However, the enterprises' leadership departments still have the traditional cadre management system. This situation is very unsuited to the demands of the reform of the enterprise leadership structure. First, enterprises' leadership departments' party committees have the power to appoint or to dismiss factory directors, which means that the factory director must do things in accordance with the ideas of the upper-level party committee. Second, at present the party director is assessed, selected and directly appointed by the upper levels. In this, various types of problems have emerged and it is very difficult to guarantee that the quality of the factory directors will accord with the requirements of the factory director responsibility system. Third, the factory director should be an entrepreneur. Transferring factory directors in a unified way like party and government cadres will not be beneficial to the implementation of the factory director responsibility system and not be beneficial in doing well in enterprises' production operations.

In terms of organizational structure, after implementing the factory director responsibility system, the organizational structure of the enterprises' production operations and administrative management system must be accordingly adjusted and reformed. The functions of the enterprises' party committees have changed but their organizational structure still retains the set-up of the old leadership system. There exist enormous organizational structural systems which run parallel to the administration and they basically follow the traditional operation methods. This inevitably results in friction with the new enterprise leadership system. The organizational structure of the enterprises' party committees and its operational methods are directly related to the traditional leadership systems of the leading departments.



## 2. Government and enterprise functions are not separated.

The separation of government and enterprise functions is an essential condition for the reform of the enterprise leadership system. If we do not establish the legal person status of enterprises and give them appropriate decision-making power in production operations, we will not enable enterprises to escape their position of being appendages of administrative organs. And if we do not change the situation whereby factory directors are without the right to take responsibility, without the power to take responsibility, and have no way to take responsibility, it will be difficult to implement the factory director responsibility system. Because we are now changing from the old system to the new system, and at present the traditional system still plays the major role, the enterprise production and operations autonomy as stipulated by the state has still not been completely implemented, enterprises positions as relatively independent commodity producers and operators have still not been completely established and the situation of government and enterprise functions not being separated has not been basically changed. These situations directly affect the smooth implementation of the factory director responsibility system.

Why is it difficult to separate government and enterprise functions and why is it difficult to implement enterprise autonomy? Analyzed from local situations, the major reasons are: 1) The traditional concepts and habits which have been formed by the old administrative management system still fetter people's brains. Some comrades are worried that after government and enterprise functions are separated the state will lose its function of managing the economy and there will be no way to control enterprises' actions. They are afraid that the enterprises' activities will become divorced from the track of the planned, proportional development of the national economy. There are also some comrades who are unwilling to give up the power they hold in their own hands. 2) Under the current financial system the economic benefits of localities and departments are linked to the production operations of enterprises. This forms profit centers and responsibility centers with localities and departments as units. This thereby strengthens the power structure whereby there is departmental ownership and barriers between departments and regions, resulting in localities and departments' major energies being centralized in enterprises' production operations. 3) The set of enormous organizational structures which have been formed by the situation in which various levels of government have directly managed enterprises for a long period have not been correspondingly reformed. Also, the more the structures are simplified the more there are of them, the number of cadres continues to increase their functions are confused and unclear, their power is still centralized and various levels of administrative organs continue to directly manage enterprises using their original management ideology, management systems and management methods. This has produced a situation where it has been difficult to carry things out, it has been difficult to hand down power, it has been difficult for the factory director to do his job and it has been difficult to enliven the enterprises. 4) The legal system is not perfect. Since the "state-owned industrial enterprises law" has not yet been officially promulgated, the nature, position and production operations autonomy of enterprises, and the relationship between enterprises and the state and between enterprises has not yet been set



down in "law", and we lack a complete legal system for carrying out external supervision and restraining of state power.

#### IV.

The gradual deepening of the economic structural reforms has revealed various problems in the political structure. If we do not appropriately carry out reforms, then it is inevitable that will affect the deepening of the economic structural reforms.

In order to fully implement the factory director responsibility system we must further do well in the reform of the enterprise organizational structure, the reform of the cadre management system, the reform of the labor system, the reform of the distribution system, and the reform of the various systems of rules and regulations centered on the economic responsibility system. In this way the enterprises' internal reforms will be coordinated. Outside the enterprises, before the political structural reforms are implemented in an overall way, we can start by reforming the enterprise leadership system and resolving the contradictions uncovered in enlivening the enterprises. We can use the "strike reflex" to carry out, within local and departmental limits, appropriate reforms of those links and aspects of the existing political structure which do not accord with enterprise reforms and change the old ideological concepts. We must sweep away the obstructions so that the enterprise reforms can continually progress and promote and guarantee the smooth implementation of the enterprises leadership system reforms and the various other enterprise reforms.

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## ECONOMIC REFORMS EXAMINED USING SYSTEMS THEORY

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[Article by Sun Xiaoliang (1327 2400 5328) of the State Machine-Building Industry Commission: "A New Understanding of the Economic System Reform Is Gained Through a Study Using Principles of Systems Theory"—a text revised in October 1986]

[Text] In 1982 I published my views on using systems theory to study our economic system reform. The practical experience of the past several years has further proved that this is a major question concerning whether the economic system reform can develop in depth. Therefore, I wish to discuss my views again.

The Key to In-Depth Development of the Reform

China's urban economic system reform has been going on for 8 years. Currently, the main problem is how to deepen it, and there are many different arguments and views on this problem. Some hold that the reform of the system of ownership of enterprises is the key to its in-depth development, while others hold that rationalizing and reforming the pricing system are crucial. There are definite reasons behind both views, but various individual reforms they advocate should not be carried out in isolation.

I think that the key to in-depth development lies not in the reform of a particular single subsystem, but in the coordinated and comprehensive undertaking of various management subsystem reforms. The economic system comprises many interrelated and mutually restraining factors. The functions of a system depend primarily on its structure and secondarily on the conditions of the factors. However well designed the reform of a single subsystem is, and however thoroughly that reform is carried out, it cannot affect the overall functioning of the system. Only if various reforms are coordinated and rationally harmonized can the entire system function well comprehensively. Many reform measures of the past several years have often been decided on according to the situation and designed and carried out piecemeal, so that interrelated management subsystems have been unable to restrain one another, the entire system has been unstable and out of equilibrium, and conflicts between old and new subsystems have arisen.

Correct reform measures have often been unable to produce a full effect, and some reforms have even been out of line with one another or have impeded one another, producing a negative effect.

In our actual reforms the phenomena of ambiguous objectives, disorder in the mechanism, and improper sequence have inevitably resulted from the disharmony between various reforms. They furnish negative experience which helps prove that the harmonization of reforms is the key to the in-depth and smooth development of our reform. For example, for a time in the past we overstressed invigorating the enterprises and thus relaxed control on them and assigned decisionmaking powers to them indiscriminately. But later we overstressed central control and thus indiscriminately repossessed the powers assigned to them. This specifically reflected ambiguity in the objectives of reform. In the past there were several rounds of vacillation between the assignment of decisionmaking powers to lower levels and the repossession of these powers. Currently, this problem has not been completely solved and a rational decisionmaking structure has not yet been formed. Another example is that in trying to exercise control or achieve development we have suffered failures and "counterregulation" has even occurred. This has specifically reflected disorder in the mechanism. The "chronic thirst for investment" cannot be radically cured because there are mechanisms which stimulate investment but none which curb investment. Decisionmaking powers over investment have been assigned to lower levels, but the corresponding means of regulation have not been instituted. Increases in investment have inevitably occurred under this condition. Faced with an expansion in investment, we have not weakened those mechanisms which stimulate investment growth, like the systems of assuming full responsibility for one's finances and assessing achievements in terms of speed, nor have we speeded up the reforms of the taxation and financial systems to strengthen the means of indirect regulation and control. But we have compulsively relied on administrative measures so that the old system has actually been reinforced. This has been a minor relapse in the course of reform. A third example is that some reforms have been carried out in the wrong order and serious lags have occurred between certain reforms which should have been undertaken simultaneously. This has specifically reflected the wrong sequential order of the reforms. Although our economic system reform calls for increasing enterprises' decisionmaking powers over operation, various reforms necessary for the formation of a market with the means of production and a financial market have not yet started even at this late time, so that the setting does not allow enterprises to enjoy decisionmaking powers over operation and it is naturally very difficult to implement various regulations concerning increasing decisionmaking powers over operation.

The fact that various reform measures conflict with and impede one another more markedly reflects, in a comprehensive way, ambiguity in objectives, disorder in the mechanism, and the wrong sequential order. For example, whereas an avowed goal of reform is to invigorate enterprises and separate the government's duties from enterprises' duties, the government's assuming responsibility for the completion of tasks has been instituted as an important "reform" measure. Municipal bureaus, provincial departments, and even some central government departments assume responsibility for the

completion of tasks so that various responsible government departments' control over enterprises' production and operational activities has become increasingly more meticulous and inhibiting, and the possibility of invigorating enterprises and separating government duties from enterprises' duties has become increasingly more remote.

All this shows that disharmony between various reforms has been the main problem affecting the in-depth development of our overall reform and whether various reforms can be harmonized is crucial to its success or failure. Considering the current practical needs we should mainly study the overall goal of reform by using the principle of the all-embracing optimization of systems, study relations governing the harmonization of various reforms by using the principle of the ordered nature of factors, and study the plan for executing various reforms by using the principle of the interrelatedness of factors. Of course, this merely concerns harmonization within the overall economic management system. Harmonizing reforms of the economic system and the political system concerns an even larger system, and a separate study is needed.

#### Studying the Overall Goal of Our Economic System Reform by Using the Principle of the All-Embracing Optimization of System

All economic systems must be continually perfected. In this sense, our economic system reform is endless. In a given period, however, the economic system must be relatively stable. Therefore, a sustained process of reform is marked by different stages, for each of which the corresponding overall goal must be clearly defined.

What is the overall goal of China's economic system reform at the present stage? It is neither the maximization of enterprises' vigor nor the perfection of central planning. It is correct to say that invigorating enterprises is the central link of our urban economic system reform because currently the main problem is that the existing economic system fetters enterprises and smothers their vigor. However, maximizing enterprises' vigor must not be taken as the overall goal of reform. Our state economic planning also really badly needs improvement because many major errors in our economic life stem from the lack of a scientific basis for state planning. However, we must not consider perfecting central planning as our overall goal of reform. A country's steady and sustained economic development requires at least two basic conditions: first, enterprises, the basic units that carry out economic activities, must have strong vigor; and second, the entire national economy must develop in a planned, proportionate, and well-coordinated way. Both basic conditions are indispensable. They must be simultaneously satisfied by our economic system. However, the problem is complicated because they actually restrain each other.

An ideal economic system should possess both a good motivating capability and a good equilibrium-attaining ability. Under such a system enterprises' possession of strong vigor can be ensured and the proportionate and well-coordinated development of the national economy can be consciously maintained. Simply stipulating the maximization of enterprises' vigor as the overall



goal of our economic system reform is a defective strategy because this can solve only the problem of the system's inadequate motivating capability and the problem of poor microeconomic equilibrium-attaining ability, but not the problem of conscious, proportionate development. Simply perfecting central planning and attempting to exercise central control over all economic activities by direct planning, as well as stipulating this as the overall goal of economic reform, also amount to a defective strategy because however perfect and sophisticated central planning is, it can only solve the problem of macroeconomic equilibrium and cannot help mobilize enterprises' internal motivating forces, so it is very difficult to guarantee microeconomic equilibrium. The overall goal for the system should be the all-embracing optimization of the economic system's motivating capability and equilibrium-attaining ability under the condition that they restrain each other. Generally speaking, decisionmaking powers over macroeconomic activities must be centralized in the hands of the state to satisfy the need for consciously maintaining the proportionate development of the national economy, while decisionmaking powers over microeconomic activities must be assigned to the enterprises below to satisfy the need for invigorating them. The all-embracing optimization of the economic management system can be achieved only under this rational decisionmaking structure.

#### Studying the Harmonization Relations of Economic System Components by Using the Principle of the Ordered Nature of Factors

A system's overall functional capability goes beyond a simple summation of its factors' functional capabilities because the factors are combined in an ordered way to form the entire system. The ordered nature of a system's factors is reflected in the existence of vertical levels and ranks and horizontal interaction. If various reforms of the economic system are to be harmonized, we must first study the harmonization relations of these reforms in connection with these vertical and horizontal interrelationships.

##### 1. Concerning the overall structural establishment of the economic system:

Considering vertical relations, there are three interrelated planes in the overall economic system; the system's structure, the operational mechanism, and the functional capability. Considering horizontal relations, there are three interacting subsystems: the microeconomic management system, the regulatory and control system, and the macroeconomic management system.

The interrelationships between the three planes in the vertical hierarchy are: the system's structure determines the operational mechanism, which in turn determines the system's functional capability. Our economic system reform actually amounts to transforming the management system's structure, forming a new economic operational mechanism, and thus improving the system's overall functional capability.

Among the three interacting horizontal subsystems, the regulatory and control system is the intermediary which interacts with other subsystems in both directions. Considering the interaction between the regulatory and control system and the microeconomic management system, for one thing, with

enterprises enjoying decisionmaking powers over operation and assuming full responsibility for profits and losses, a sound and effective regulatory and control system is necessary for bringing enterprises' activities in line with the state's planning goal and policy objectives. For another thing, only if enterprises enjoy decisionmaking powers over operation and assume full responsibility for profits and losses can they vigorously respond to the means of economic regulation. Considering the interaction between the regulatory and control system and the macroeconomic management system, for one thing, the state needs a sound and effective regulatory system as a tool for attaining its planning goal and policy objectives. For another thing, the state's plans and policies, which constitute the basis of the means of regulation, must in turn have a definitely scientific basis. Otherwise, however sound and effective the regulatory and control system is, it cannot function correctly to ensure the national economy's proportionate and well-coordinated development.

The above-mentioned interrelationships between the three planes and interactions between the three subsystems are the basic inherent relations of the economic system. Only by studying these relations can we correctly understand and master the relations of harmonization between various management subsystems and hence harmonize our reforms.

## 2. Concerning the microeconomic management system and its reform:

Under our management system which is characterized by the centralization of powers in the hands of the government, and direct control, there are two major problems regarding microeconomic activities: First, enterprises' lack of an internal motivating force that continually letters their operation and management; and second, there is a divorce between production and demand.

The poor quality, lack of variety, and low standard of our products, coupled with poor service and poor economic results, have been a "chronic illness." The basic cause is that our economic system lacks an economic mechanism that can promote enterprises' continual improvement in operations and management. Considering the distribution system, in the case of workers of enterprises under ownership by the whole people, the grades and standards of their wages and the timing and proportions related to their wage raises and promotions are centrally prescribed by the state, that is, the state directly administers distribution to workers at a single level. Considering the fiscal system, most enterprises under ownership by the whole people must deliver all their profits to the state, which also assumes full responsibility for their losses. Central control over revenues and expenditures is applied to the whole country. These distribution and fiscal systems sever the direct relationship between enterprises' operational results and their workers' remuneration. Workers remuneration does not increase if the enterprises are well run and managed or decrease if they are not. Thus, everyone has an "iron rice bowl" and "eats out of the collective rice pot," so that there is a lack of an internal motivating force for improving operations and management, which is the source of an enterprise's vigor.

The root of the divorce between production and demand lies in our economic system's lack of an economic mechanism that promotes compatibility between the product pattern and changes in the demand pattern. Considering the production management system, what and how much the enterprises should produce are not determined through acquiring information from consumers via the market, but are determined by the directive plans of governments at various levels. These directive plans, however, cannot opportunely and flexibly reflect changes in the demand pattern. Considering the circulation system, the enterprises' products are distributed according to state plans, so that "production is completely divorced from demand and buying commodities is like ordering a cow from a seller on the other side of the mountain and unhappily getting an old one." Moreover, enterprises do not need to worry about the marketability of products not needed by society. Under these systems of production and circulation enterprises cannot obtain information about changes in the demand pattern and indeed have no incentive to do so. Thus, opportunely readjusting the product pattern in line with changes in the demand pattern is even more surely impossible.

In view of this situation it is necessary to reform the microeconomic management system by mainly creating two mechanisms: First, an economic mechanism which can mobilize enterprises' internal motivating forces so that the system will have a good motivating capability; and second, an economic mechanism which gears the product pattern to changes in the demand pattern so that the system will have a good microeconomic equilibrium-attaining ability.

In creating an economic mechanism which can mobilize the enterprises' internal motivating force, first, workers' remuneration must be directly linked to enterprises' operational results, with the former depending on the latter; and second, the whole body of workers must really possess decisionmaking powers over operations and thus play the role of masters. An internal motivating force which makes enterprises continually improve operations and management cannot be mobilized in isolation from some definite economic interests and democratic rights.

Both creating an economic mechanism which gears the product pattern to changes in the demand pattern and allowing workers to really possess decision-making powers over operation require enterprises to have decisionmaking powers over operations. Therefore, it is necessary to reform the systems of production and circulation, abolish directive planning governing the production of products and planned allocation in the circulation of products, and allow the market to regulate production and circulation. Thus, what and how much to produce will be planned by the enterprises themselves in light of market demands and circulation will be effected through market channels. A reform of the systems of production and circulation coupled with a concerted reform of the distribution and fiscal systems will give rise to an economic mechanism which spurs the enterprises to automatically readjust the product pattern in line with changes in the demand pattern.

Enterprises' possession of decisionmaking powers over operations and assuming of full responsibility for profits and losses are not isolated matters but require some appropriate external environment and conditions which comprise two major categories: First, an environment essential to enterprises' possession of decisionmaking powers over operation. This environment includes a market in commodities, financial and services markets, a perfect information system, etc., which must be created through reforms of the pricing, production, circulation, and financial systems. Second, conditions necessary for fair inter-enterprise competition, like the deduction of various differential incomes, the existence of a rational pricing system, etc. These conditions must be made available through a reform of the tax system and a readjustment in the pricing system.

In the microeconomic management system the interrelationship between the three planes in the vertical hierarchy is one in which only by reforming the production, circulation, distribution, fiscal, pricing, and financial systems can an economic mechanism which can mobilize enterprises' internal motivating forces and an economic mechanism which brings about compatibility with changes in the demand pattern be created, and only when these new economic mechanisms are created can the system acquire a good motivating capability and a good microeconomic equilibrium-attaining ability. The interaction between the three horizontal parts is one in which only if enterprises possess decisionmaking powers over operations can the assuming of full responsibility for profits and losses be reasonable. Only the assumption of full responsibility for pro-fits and losses can compel enterprises to correctly exercise their decisionmaking powers over operations. And only if some appropriate external environment and conditions are available can enterprises really have decisionmaking powers over operations and assume full responsibility for profits and losses.

### 3. Concerning the regulatory and control system and its reform:

Reforming the microeconomic system will alter the motive behind, and the norms of, enterprises' behavior. Enterprises' operational activities and the use of their own decisionmaking powers will inevitably be dictated by their own interests and needs. Consequently, enterprises' behavior may or may not be compatible with the requirements of state plans and overall national interests. Cases of incompatibility will surely occur, though the frequency may be higher or lower. In such cases, the state must consciously exercise regulation through a sound and effective regulatory and control system to maintain proportionate national economic development. The stronger the enterprise's vigor, the more pressing the objective need for reinforcing the regulatory and control system.

Under that type of management system whereby powers are centralized in the hands of the government, all economic activities are directly controlled by governments at various levels. The problems of this mode of regulation and control are: first, it lacks flexibility, so that very often control quickly leads to disorder and relaxing control quickly leads to disorder, and second, the effectiveness and sensitivity of regulation and control are rather poor, and structural imbalance and the situation of economic



activities getting out of control will repeatedly occur with varying degrees of seriousness. Therefore, reform is necessary.

We need a regulatory and control mechanism which can ensure both enterprises' possession of decisionmaking powers over operations and flexibility and effectiveness in regulation. To satisfy this requirement we must not rely on only a single means of regulation. Instead, we must have a regulatory and control system comprising many means of regulation which can be broadly classified into direct and indirect ones. If an enterprise's behavior deviates from the requirements of state plans, there can only be two reasons. First, the enterprise's interests conflict with state interests. This problem can be solved by using economic policies and levers to readjust relations of interests. Under certain circumstances, administrative decrees or economic rules and regulations can also be used to coercively subordinate partial interests to overall interests. Second, the enterprise is not well-informed about the overall situation and thus unconsciously deviates from the requirements of state plans. In this case, information can be furnished to enable the enterprise to understand the overall situation and correspondingly restrain its own behavior.

Instituting such a regulatory and control system necessitates an all-round reform of the pricing, taxation, and financial systems. The reform of the pricing system mainly means that the central pricing system should be replaced by a system whereby some individual products are priced centrally, the majority of products are priced according to guidance given, and a minority of products are priced freely. Thus, the prices of the majority of products will be determined by the market mechanism and will vary with changes in demand and supply relations, so that they will be able to flexibly regulate demand and supply relations and product patterns.

A reform of the tax system includes the following: first, instituting new taxes for regulating various categories of differential incomes and thus creating a condition necessary for fair interenterprise competition; second, instituting new taxes for regulating the scale and pattern of investment in fixed assets, the scale and growth of consumption funds, the industrial structure, and the product pattern, to strengthen the regulatory and control functions of taxation; and third, instituting a system of separate taxation by the central and local governments. This reform will change the structure of the taxation system and change the function of taxation so that it will change from a simple channel for collecting fiscal revenue into a powerful lever for regulating economic activities.

A reform of the financial system includes the following: first, running grassroots banks as enterprises on the basis of regulating the interest rate system and rationalizing the pricing of funds; second, the central bank strengthening the macroeconomic control of the funds by such means as relending and rediscounting on the basis of grassroots banks being run as enterprises; and third, creating short-term and long-term capital markets and strengthening the role of the direct acquisition of funds by enterprises and the indirect supply of funds by banks in their capital formation.

Harmonized reforms of the pricing, taxation, and financial systems may serve two purposes: first, creating conditions for changing over from relying mainly on direct control to relying mainly on indirect control; and second, enabling both enterprises to possess a definite amount of decisionmaking powers over operations and making possible the effective regulation and control of economic activities, under the condition of relying mainly on indirect control.

In the regulatory system the interrelationship between the three planes of the vertical hierarchy is one in which only by reforming the pricing, taxation, and financial systems can a highly flexible, sensitive, and effective regulatory mechanism be formed, and only by forming this new economic mechanism can the system enjoy good regulatory and control capabilities. The horizontal interaction between the many direct and indirect means of regulation is one in which some of them complement one another, some substitute for one another, and some combine together, and their comprehensive use enables us to attain the objectives of regulation.

#### 4. Concerning the macroeconomic management system and its reform:

Under the system of the centralization of powers in the hands of the government, and direct control, the main problem regarding economic management by the state is that not only does the government excessively take on enterprises' microeconomic activities, but major proportions are not clearly defined, errors in macroeconomic formulation repeatedly occur, macroeconomic equilibrium cannot be ensured, and it may even happen that disproportion is created "in a planned way." Historical experience teaches us that if macroeconomic policy formulation is not scientific, the planned economy will not enjoy superiority.

The root of the repeated errors in our macroeconomic policy formulation is our economic system's lack of an economic mechanism which can guarantee scientific macroeconomic policy formulation. Therefore, creating this economic mechanism should be the central work in the reform of our macroeconomic management system, which aims to impart a good macroeconomic equilibrium-attaining ability to the system.

Creating an economic mechanism which can guarantee scientific macroeconomic policy formulation entails reforming the state's economic functions, organizations and agencies, and macroeconomic policy formulation system.

The central government's main economic function should be the management of macroeconomic activities. The local governments' main economic functions should include managing the construction of infrastructure, supervising the execution of economic plans, policies, rules, and regulations, and furnishing suggestions to the central government on local economic development. Decisionmaking powers over all microeconomic activities should belong to enterprises, and governments at various levels should not intervene.

In line with the reform of the state's economic management functions, the state's planning functions must also undergo reform. State planning must cease to embrace all economic activities, but should instead consist of macroeconomic planning with the tackling of national income distribution matters as its core. As for production plans for various products, state planning must deal with them to ensure equilibrium between aggregate demand and supply, but it should mainly prescribe development goals for the sake of guidance and formulate corresponding regulatory policies, and ensure their fulfillment through various means of economic regulations.

In line with the reform of the state's economic and planning functions, the fiscal and investment systems should undergo reform. The system whereby governments at various levels assume full responsibility for financial matters, divide revenue among themselves, and "eat out of different pots," that is, assume full responsibility for balancing their own budgets, must be abolished and replaced by a system of separate taxation by different governments in accordance with their jurisdiction over relevant matters. The system whereby investment funds are allocated through administrative channels according to administrative subordination relations governing enterprises must be abolished and replaced by the allocation of investment funds to various construction projects through financial market channels.

Currently, the organizations and agencies of the economic management departments of governments at various levels have a setup based on the need for centralizing powers in the hands of the government and the need for direct control. Therefore, microeconomic management bodies are bloated and overstaffed, while macroeconomic management bodies are very weak and understaffed. With the reform of the government's economic management functions there must be a corresponding reform of organizations and agencies, which should mainly consist of streamlining microeconomic management bodies and reducing their staffs, reinforcing macroeconomic management bodies and expanding their staffs, collecting and analyzing various categories of information necessary for macroeconomic policy formulation, and furnishing policymakers various optional plans proposed for policy formulation.

The reform of the macroeconomic policy formulation system mainly includes two things. The first thing is instituting a system of responsibility for macroeconomic policy formulation. Currently, some economic responsibility systems apply to workers. A system of responsibility for fulfilling set objectives within the term of office applies to factory directors, but there is not any corresponding responsibility system governing macroeconomic policy formulation. An erroneous decision or plan may cause a loss of, say, a billion yuan to the state, but the policymaker need not bear any responsibility. His error is not directly related to his honor or disgrace, promotion or demotion, or economic interests. The second thing is instituting scientific procedures governing macroeconomic policy formulation. A main reason for many major errors in our policy formulation is that errors are unrelated to one's personal interests, but another reason is the lack of a set of scientific policy formulation procedures, so that erroneous policies can be launched unimpeded. Scientific policy formulation procedures cannot only help people think rigorously and consider relevant factors carefully to minimize errors, but can also help people detect

decision errors at an early stage, correct them promptly, and thus minimize losses. Once specific policy formulation procedures have been drawn up they should become law, which must be strictly observed by officials at all levels without any exception.

In the macroeconomic management system the interrelationship between the three planes in the vertical hierarchy is one in which only by reforming the state's economic management functions, the economic management departments' organizations and agencies, and the macroeconomic policy formulation system, can an economic mechanism be formed which can guarantee scientific macroeconomic policy formulation, and only by creating this new economic mechanism can the system have a good macroeconomic equilibrium-attaining ability. The interaction between the three horizontal parts is one in which the reform of functions serves to eliminate those factors which interfere with the move of making policy formulation scientific and reforming relevant bodies, and the policy formulation system serves to build a basis for scientific policy formulation. Eliminating interference is a prerequisite for building the basis and aims to facilitate development toward building the basis.

#### Studying the Plan for Executing Various Reforms by Using the Principle of the Interrelatedness of Factors

Various factors can constitute a system because they are interrelated. In undertaking our economic system reform as a systems engineering project we must use the principle of interrelatedness to plan and determine which parts of the system should undergo reform first, which should undergo reform later, and which should undergo simultaneous reform. Otherwise, disorder in the mechanism will result.

##### 1. Concerning the three categories of interrelatedness and requirements for harmonization:

Interrelatedness between various factors of the economic system is of three basic types: first, functional interrelatedness; second, casual interrelatedness; and third, interrelatedness through interaction.

Functional interrelatedness means that various factors jointly perform a function or form a mechanism. Functionally interrelated factors must undergo simultaneous reform if the anticipated goal is to be attained. For example, to create a commodity market and develop the market mechanism's regulatory role we must simultaneously reform the production, circulation, and price management systems. If the system whereby production is governed by directive plans and goods and materials are allocated through planning is not reformed, goods and materials will not enter the market. And if the central pricing system is not reformed, prices will not function as signals reflecting demand and supply conditions and the market mechanism will not play a regulatory role. Only if the three things are simultaneously reformed can a commodity market be created and can the market mechanism's regulatory role be developed.



Casual interrelatedness means a casual relationship exists among various factors so that the factors can be reformed at different times. However, we must pay attention to two questions: first, there is a logical sequence which should not be violated governing the reforms of various factors; and will be a definite critical speed governing the relevant time lag. An erroneous deviation from this speed in either direction will be disadvantageous to the reforms. For example, the reform of organizations and agencies of the state's economic management departments must come after the reform of the production and circulation systems. This is because a commodity market can be formed only if the production and circulation systems have undergone reform. The existence of this market is a necessary condition for enterprises' exercise of decisionmaking powers over operation and the latter is in turn a necessary condition for a change of the state economic management departments' functions and a reform of organizations and agencies. However, if long after the enterprises' acquisition of decisionmaking powers over operations the state's economic management departments still refrain from carrying out a reform of organizations and agencies, they will inevitably overly intervene in enterprises' activities. This will act in the reverse direction and affect enterprises' decisionmaking powers over operations. That is why the two reforms must not be separated by an overly long time.

Interrelatedness through interaction refers to interaction between various factors. The reform that helps link remuneration for work to operational results and the reform that increases the enterprises' decisionmaking powers are interrelated through interaction. Linking remuneration for work to operational results calls for correspondingly increasing enterprises' decisionmaking powers over operations; otherwise responsibility will be divorced from powers. On the other hand, increasing enterprises' decisionmaking powers over operations also requires enterprises to correspondingly bear the risks of decisionmaking, otherwise there will be nothing to compel them to exercise their decisionmaking powers correctly. The majority of factors which are interrelated through interaction must be reformed simultaneously, but some individual factors can also be reformed at different times.

Only by correctly understanding and mastering the three categories of interrelatedness mentioned above can we correctly plan the execution of our economic system reform.

In using the principle of the interrelatedness of factors to plan the execution of reform, two basic requirements must be satisfied: first, the times for launching various reforms and the correct sequence of reforms must be determined through overall design and unified planning; and second, the reforms must be executed in a planned and step-by-step way in accordance with a logical sequence and relevant critical speeds. If we act and plan our steps piecemeal in the absence of overall design and unified planning, there will inevitably be two possible consequences: either various reforms will be in a wrong sequential order, or opportunities will be missed owing to inadequate preparation. Both consequences will affect the smooth development of reform.

2. Concerning the three levels of harmonization of reforms and practical problem:

Harmonizing reforms according to the principle of interrelatedness consists of three levels according to its scope. The first level is the harmonization of reforms of various factors in each of the three subsystems. This may be symbolically termed medium-scale harmonization. The third level is the harmonization of the reforms of the economic system and the political system. This may be symbolically termed large-scale harmonization.

Currently, there are problems at all these levels of harmonization. The main problems of small-scale harmonization are as follows: Some reforms centering around increasing enterprises' decisionmaking powers have been carried out, but various reforms related to establishing the market system have not kept pace with this development, so that the goal of allowing the enterprises to exercise decisionmaking powers over operations is still far from being attainable. The system whereby enterprises retain part of their profits represents a step toward determining remuneration for work according to enterprises' operational results, but specific criteria for correctly evaluating enterprises' operational results are not yet available. Moreover, the method of linking total wages to the amount of profits and taxes delivered to the government is not scientific. It causes the problem of "whipping the cow that works fast," that is, penalizing the more efficient enterprises, and it makes it difficult to deepen and extend the reform of the distribution system. Though limited in their scope, internal and external factors leading to competition have appeared but because the pricing system is irrational, a tax system reform leading to the deduction various categories of differential incomes has not been carried out and conditions for fair interenterprise competition have not yet appeared. Therefore, the positive role of competition has not been fully developed and some negative effects have appeared.

The main problems of medium-scale harmonization are: Although reforms of the microeconomic management system began in 1979, it was as late as in 1983 that reforms of the regulatory system began to appear on the daily agenda, and today they are still far from perfect, so that enterprises' behavior has been irrational and certain economic activities have gotten out of control. Today people still do not attach adequate importance to reforms of the macroeconomic system and there is still considerable ideological and cognitive confusion about what things should be reformed and how they should be reformed, so that some practices running contrary to the orientation of form have appeared, like government departments assuming full responsibility for the completion of tasks.

As to large-scale harmonization, even a most rudimentary study is still lacking. The substance, methods, and steps of a political system reform, and the relations and requirements governing its harmonization with the economic system reform, still belong to the "realm of necessity" of the unknown.

The reform of systems is a very complicated job. China is inexperienced and cannot copy foreign practices. Therefore, some disharmony is to be expected. What is important is that in guiding ideology we must clearly know that the harmonization of reforms is necessary and important and we must consciously use the principles of systems theory to study and master the relations of harmonization of various systems. Only on this basis can we try our best to harmonize various management system reforms.

### 3. Concerning preliminary tentative ideas on the ideal sequential order of harmonized reforms:

In undertaking harmonized reforms of various management systems we must appropriately plan for the times for launching the reforms and their appropriate sequence in light of three major factors: Their interrelationship, their logical sequence, and critical speeds. This should be the main subject in what is called overall design.

The first step is to carry out harmonized reforms which center around enterprises' exercising their decisionmaking powers over operations and also center around fair competition. This includes the following: 1) The distribution and fiscal systems must undergo partial reform to mobilize enterprises' internal motivating forces and improve their responsiveness to the means of economic regulations. 2) The production, circulation, and pricing systems must undergo a full reform to increase enterprises' decision-making powers over operations, create a commodity market, create conditions for enterprises to exercise their decisionmaking powers over operations, develop the market mechanism's regulatory role, improve the microeconomic equilibrium-attaining ability, and end the segregation between departments and between localities arising from the distribution of goods and materials through administrative channels. 3) The financial system must undergo partial reform. A short-term capital market must be formed which is compatible with the commodity market. This will help create a favorable condition for readjusting the product pattern by economic means. 4) The tax system must undergo partial reform. Conditions leading to unfair competition and arising from objective causes must be eliminated by using various categories of differential income regulation taxes. The reforms mentioned above are functionally interrelated and must be carried out simultaneously.

The second step is to undertake harmonized reforms which center around the strengthening of regulatory and control functions. This includes the following: 1) The tax system must undergo full reform. The main thing is that on the basis of instituting various differential income regulation taxes, various taxes for regulating investment in fixed assets, consumption funds, the industrial structure, and the product pattern should be instituted, to strengthen the regulatory and control functions of taxation and create a new framework of separate taxation by the central and local governments. 2) The financial system must undergo full reform. On the basis of the formation of a short-term capital market, a long-term capital market must be created. The central bank's function of regulating and controlling the use of funds must be strengthened. The segregation between departments and

between localities caused by the use of administrative channels to allocate funds must be ended. 3) The pricing reform must be further perfected and the regulatory and control function of prices as a lever must be improved. The reforms mentioned above are also functionally interrelated and must be undertaken simultaneously. The time interval between the first and second steps must not be too long, otherwise economic activities will get out of control.

The third step is to undertake harmonized reforms which center around delineating the jurisdiction of the state and the enterprises and also of the central government and local governments, over financial matters and other matters. This includes the following: 1) The economic management functions of governments at various levels must undergo reform. Their functions must be altered. The administrative authorities' duties must be separated from enterprises' duties. Macroeconomic management must be improved and strengthened. The jurisdiction of the central and local governments over various matters must be clearly delineated. 2) Organizations and agencies of governments at various levels must undergo reform. Organizations and agencies with characteristics appropriate to their economic functions must be set up. Thus, the root of segregation between departments and between localities will be eliminated through organizational reform. 3) The macroeconomic policy formulation system must undergo reform. A basis and some desirable conditions for making macroeconomic policy formulation scientific must be created. 4) The fiscal and investment systems must undergo full reform. Enterprises must become the main body of investors. Conditions must be created for making enterprises assume full responsibility for profits and losses. Moreover, the central and local governments' jurisdiction over general matters initially, and further over financial matters, must be clearly delineated. A new system of separate taxation must be instituted. 5) The forms of the ownership of enterprises and the mode of their operations must undergo reform. Enterprises must assume full responsibility for their profits and losses and a corresponding distribution system must be instituted. The reforms mentioned above are also functionally interrelated and must be undertaken simultaneously. Reforms of the third step must come after those of the first and second steps. However, the time interval must not be too long, otherwise the consolidation and development of the fruits of the preceding reforms may be affected and a relapse may also occur.

China's urban economic system reform has, since its beginning, centered around increasing enterprises' decisionmaking powers. By now, however, conditions for enterprises exercising their decisionmaking powers over operations and conditions for fair competition have not yet been created. Therefore, reforms of the first step have not yet been accomplished. When various reforms of the third step are accomplished we will be able to say that a new system is playing the leading role.

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## LI YINING ON OWNERSHIP REFORM, ENTERPRISE MANAGEMENT

Beijing ZHONGGUO JINGJI TIZHI GAIGE [CHINA'S ECONOMIC STRUCTURE REFORM] in Chinese No 12, 23 Dec 86 pp 25-28

[Article by Li Yining [0632 0110 1337]: "Ownership Reform and Stock Enterprise Management"; first paragraph is an editorial note supplied by the publication]

[Text] We recognize that a stocks system to the large- and medium-scale enterprises under the system of public ownership, and there are many significant theoretical and practical issues which need to be investigated, such as the tax system, capital appraisal, stock conversion, and the leadership system. A lengthy theoretical article by Li Yining, the publication of which begins with this issue, explores a series of issues related to implementing the stock system, and proffers many useful ideas. We hope more people will be able to participate in inquiries in this field.

## I.

Socialist society in the traditional mold rejects the notion that the socialist economy is a commodity economy, holds there to be no independent economic benefits for enterprises themselves in the socialist society, and that the enterprises are not commodity producers or managers; goods are produced and allocated in accordance with state mandatory planning, and so forth. Governed by such a thesis, the socialist system of ownership characteristically is considered uniform public ownership, and public ownership only includes ownership by the whole people in the traditional sense, and collective ownership in the traditional sense: the nation is superior to the collective, the larger collective is superior to the smaller collective, and the greater the conversion to public ownership, the better. According to this viewpoint, what is needed with respect to change in ownership is a transition from the smaller collective to the larger collective, and from the collective to the whole people; in short, a transition toward "larger" and "public." As a result, at the same time as rejecting a socialist economy in the traditional mold, we also must reject the viewpoint pertaining to ownership and transformation of ownership which it entails. In the present discussion of restructuring the system of ownership, we are talking about the issue of ownership reform under the premise that "the socialist economy is a commodity economy."

Put simply, there are four aspects to ownership reform which we need to discuss.

First, uniform public ownership is not in accord with the requirements of developing a commodity economy in socialist society. Uniform public ownership should be changed to diversified ownership, to include public and nonpublic ownership.

Second, restructure the traditional system of ownership by the whole people to adapt it to the level of development of the productive forces.

Third, restructure the traditional system of collective ownership to adapt it to the level of development of the productive forces.

Fourth, establish new types of ownership comprised of a combination of diverse types of ownership; specifically, new types of joint economic bodies which include ownership by the whole people, the collective, and the individual.

According to this exposition, the ownership reform we must discuss is neither the need to change from public to private ownership, nor the need to abolish ownership by the whole people. Ownership reform refers to restructuring those systems of ownership which are suited to a socialist economy in the traditional mold, and which are appropriate for a product economy; namely, reform of ownership by the whole people in the traditional sense, and ownership by the collective in the traditional sense, and reform of systems of ownership not suited to development of a socialist commodity economy. In other words, ownership reform must be based precisely on the state of development of productive forces in society, and on the characteristics of the present stage of socialist development. We must adjust ownership which is ill-adapted to the requirements for developing a commodity economy, make every effort to do so in accordance with the demands of developing such an economy, regulate interpersonal relations by means of a high degree of ownership relations, arouse the initiative and enthusiasm of the various parties, and achieve the goal of rapid growth of a socialist economy.

We know that the purpose of restructuring the economic system is to enable socialist production relations to adapt to the state of, and requirements of, the productive forces, and to provide the necessary conditions which make it possible to rationally organize each essential element of the productive forces, to raise labor productivity, and to speed up development of a commodity economy. In restructuring the economic system, then, it is only through reform of the system of ownership that we will be able to achieve what is needed to restructure the economic system as a whole, and that we will be able truly to resolve the questions of benefits, responsibility, incentives, and motivation in the economy. Without ownership reform, the various other effects attainable through reform in the economic field will be limited. This is the significance of ownership reform.

Our many years of restructuring the rural economy provides valuable enlightenment on the important role of ownership reform in accelerating the development of a socialist commodity economy and in arousing the initiative and enthusiasm of the various parties. Up to now, the remarkable successes achieved in rural economic reform not only have transformed the system of management, they have transformed the ownership system as well. By implementing in the rural areas

the output-related system of contract responsibility, we have restructured the traditional system of public ownership with its "three-level ownership by the commune, the production brigade, and the production team, with the production team as the basic accounting unit." Only by having the peasant contractors serve as producing units with themselves reaping independent economic benefits, and by separating administrative from economic organizations, will we establish new types of economic relations which bring equality, mutual aid, and mutual benefit. Moreover, lengthening the terms of land contracting impels the peasant contractors to become more rational and more oriented toward the long term in their economic behavior.

Agricultural reform broke through the uniform management mold of the traditional system of collective ownership. Decentralized management in the wake of bringing land under public ownership and implementing land contracting enabled the peasant contractors to function as independent producing units possessing the right to act on their own initiative and the ability to meet emergencies, and thus we have adapted to the peculiarities of the present stage of agricultural production in China. Of course the scope of public ownership not only includes land, it also includes surface waters, underground mineral resources, cropland water conservancy facilities, and a portion of farm machinery. Another portion of farm machinery is owned by peasant contractors. Still another portion of the means of production, such as farm animals, tractors, and motor vehicles, also could be owned by the collective, and used by the individual through contracting; or, privately owned, and used by the collective, which would make payments. The peasants themselves possess a portion of the means of production, and employing the new approach of integrating some of the publicly owned means of production with some of the privately owned means of production is an important factor which bestows great vigor to the rural economy.

None of what has been outlined above belittles the role of transformation of the structure of agricultural production. We cannot deny that in this process a change has occurred in how production is organized; namely, a change from the practice of assembling and going to work in a uniform manner, to the practice of dispersing labor with the household as the accounting unit, and the appearance of various types of jointly managed production organizations. Yet the key to development of a commodity economy in the rural areas resides not in a change in how production is organized, but in establishing a new system of public ownership adapted to developing the productive forces.

What needs to be clarified is the incorrect view which, while recognizing that the source of economic change in the rural areas lies in change occurring in the system of ownership, yet maintains that such change in ownership can be summed up as a change from public ownership to private ownership. This obviously does not accord with the actual situation. We must understand that the output-related system of contract responsibility has yet to alter the public ownership of such fundamental means of production as land; that is, land in the rural areas still is owned by the collective, and the peasants, with the household as the accounting unit, contract for the land. In other words, decentralizing land management certainly is not tantamount to privatizing land. Decentralizing production and management by the peasant contractors is founded on socialization of essential means of production, such as land. This is a transformation from

the traditional system of public ownership to a new type of public ownership, rather than a transformation from public ownership to private ownership.

As such, how should the traditional system of ownership by the whole people be restructured in the case of the cities? Proceeding from the actual situation in China, reform could be in accordance with the following:

Some of the enterprises owned by the whole people (meaning the present large-scale enterprises which are the lifeblood of the national economy) may continue to be owned and operated by the state, but principally they should set about to improve enterprise management and perfect the economic responsibility system;

Some of the enterprises owned by the whole people (meaning the various small-scale industries) may employ such economic practices as renting, contracting, and selling goods at reduced prices, or they may change into cooperative economic ventures;

Some of the enterprises owned by the whole people (meaning ordinary large- and medium-scale industries) may form stock companies, and by means of a system of ownership through stocks replace the system of ownership by the whole people in the traditional sense, and form enterprises jointly managed by the state, the enterprise, and the workers. This approach does not change the nature of the socialist system of public ownership; rather, it makes establishment of a new type of public ownership, the stock enterprise, the object of reform.

Through reform of the traditional system of ownership by the whole people we will establish a new system of socialist ownership in China. By a new system of socialist ownership we mean, specifically, a type of ownership structure in which we proceed from actual conditions in developing the productive forces, determine the place of different systems of ownership in the national economy, and determine a rational proportion among them. Because of the uneven levels of development of the productive forces in China, and the relatively large discrepancies between regions, between sectors, and between enterprises, when we determine the ratios of the different systems of ownership, they should be in line with national conditions, and we should proceed from what will benefit development of a socialist commodity economy. Under the present condition of the productive forces in China, both the stock sector of the economy and the cooperative sector of the economy, established on a broad scale through reform of the system of ownership, are publicly owned sectors of the economy, and both are principal parts of a socialist commodity economy; both are indispensable, neither is better than the other, and the transition harbors no problems. Hereafter, both could further form new joint economic entities founded on development of a socialist commodity economy, or, even newer forms of public ownership could emerge outside these two; but in any case, following the "smaller collective--larger collective--ownership by the whole people" pattern of successive development of the past has no basis in theory, and in practice has disadvantages while lacking advantages. Consequently, it must be thoroughly abandoned.



## II.

The plan for converting to stock ownership ordinary large- and medium-scale enterprises in socialist society occupies an extremely important place in the overall plan for reform of the system of ownership. First, it must be emphasized that conversion of enterprises in a socialist society to stock ownership is linked to the publicly owned sector of the economy. Although the stock sector of the economy may interlock with the different structures and administrative levels of a socialist system of public ownership, and even though different systems of ownership (including ownership by the whole people, the collective, and the individual) may be interwoven, and, as a consequence, form economic units dissimilar in the degree of blending (namely, stock enterprises), this in no way conflicts with public ownership. Much less does conversion of enterprises to stock ownership refer only to establishing new stock enterprises; it also includes converting to stock ownership enterprises under the original system of ownership by the whole people. This is a fundamental pattern of ownership reform as regards the original system of ownership by the whole people.

The stock sector of the economy is characterized by separation of ownership rights and management rights. Under socialism, the stock sector of the economy likewise possesses this characteristic. The stock sector of the economy reflects the objective reality that ownership of the means of production is becoming more pluralistic. A view which became prevalent considered a stock economy to be a characteristic phenomenon of capitalism. This is not incorrect if we compare capitalism with the former capitalist economy, since although stock companies appeared early on in the former capitalist society, it was only after the capitalist system was established that there were great strides in the development of the stock sector of the economy. But the stock sector of an economy is not equivalent to a capitalist economy. The stock sector is not an independent economic modality; its nature hinges on the nature of the shareholders. In socialist society, the government sector, the enterprises owned by the whole people, and the enterprises owned by collectives all are shareholders, and the workers as individuals may become shareholders as well. The enterprises formed by these shareholders pooling resources are different in nature from the stock enterprises in a capitalist society. Not only this, but the management of stock enterprises under socialism necessarily is bound by the laws of the socialist state, and must come under the supervision of its administrative sector. These are the essential differences between the stock sector of the economy in a socialist society and the stock sector of the economy under capitalism.

In the course of ownership reform, conversion of enterprises to stock ownership may be divided into two major stages. The first stage is adding capital through stocks; specifically, following the practice of raising capital through shares in establishing new enterprises, and adopting the practice of issuing shares when expanding operations of already established enterprises. The following stage is converting existing capital to stocks; that is, appraising and deciding the value of the fixed assets of the established enterprises and converting them to shares, and changing those enterprises completely into stock enterprises in the true sense.

Comparatively speaking, establishing new enterprises by means of raising capital through shares is quite convenient. If the people who establish enterprises want to set up a new stock enterprise, they first must satisfy certain approval procedures, and only then may they issue stocks. The question of authority over this newly established stock enterprise hinges on share rights. When the share rights are dispersed, whoever has in hand the minimum controlling share is able to control the enterprise.

Pursuant to the actual situation at hand in China, when stocks are issued by the newly established enterprises, they may consider whether the shares will be issued on behalf of a specialty bank or on behalf of a trust investment-type company. The enterprise will conclude a stock sales contract with those issuing the shares based on the type of stock, the enterprise situation, and other circumstances, and the enterprise will pay a set stock sales commission. When the stocks are issued, the transaction will be concluded according to the face value of the stock. Thereafter, when possession of the stock is transferred, the extent of rise or fall in the value of the stock may be calculated in accordance with how well the enterprise is operating and on market conditions, which will bring a change in the stock price.

Meanwhile, at China's present stage, the following provisions in general will be made for dividends and bonuses on the stocks issued by the newly established enterprises: a set dividend for the stock will be paid at regular intervals, and this will be considered a cost; afterward, a set proportion of bonus funds will be taken from the after-tax profits and distributed according to stock-holdings. The amount of extra dividends earned per share will float up or down in accordance with how much retained profit the enterprise enjoys. This approach will encourage the buying of shares by investors, and will make economic accounting by the enterprises easier. Of course this does not preclude certain newly established stock enterprises from combining dividends and bonuses as one when they first start up, in order to more intimately link the interests of the enterprise and the investors. But this should be limited to the few enterprises for which comparatively large profits are a certainty; otherwise it will not be easy at present to attract investors to buy shares.

The approach of increasing funds through stocks also applies to raising capital by this means for expanding operations of the established enterprises. This differentiates two categories of capital for those enterprises: one category is the capital the enterprise already possesses, and the other category is capital newly added by the enterprise. Capital in the former category will not be converted to stocks for the time being, while capital in the latter category was raised through stocks. Obviously this is an interim measure, but it is a necessary interim measure given the system of enterprise ownership by the whole people in place in China Today.

When issuing stocks for existing enterprises owned by the whole people to expand operations, we may apply the methods employed in issuing stocks to establish new enterprises. What is somewhat confusing is the computation and distribution of dividends and bonuses. For dividends, we may employ a set method of calculating interest based on shares, and figure in costs. But when it comes to bonuses, we must take into consideration the existing fixed

capital of the enterprise, otherwise we may infringe on the profits of that sector of the economy under the system of ownership by the whole people. Consequently, we should calculate the ratio of newly added capital to the enterprise's previously existing capital and, in accordance with this ratio, delimit a portion of the enterprise's retained profits to serve as after-expansion bonus funds for shareholders.

In actuality, even if the ratio of the sum of money newly added through stocks to existing capital forms the basis for delimiting bonus funds from among the enterprise's after-tax profits, there are still some irrational aspects in determining from this the size of the bonus to be granted for newly added shares. This is because it is difficult to determine how much of a contribution to the gross profits of the enterprise was made by existing capital compared to capital raised through newly added shares. In terms of the functions of different key production elements, under certain conditions the actual role played by the enterprise's existing capital is less than that calculated based on its proportion of the total amount of capital, and under other conditions it may be proportionally more than calculated. Furthermore, it is even more difficult to determine how much of the gross profits of the enterprise was contributed by existing capital as against the new capital added through stocks if consideration is given to nonmonetary aspects (such as the existing enterprise's reputation, trade mark, geographic location, customer relations, etc., extent of social contacts of new shareholders, and change in social image of the enterprises after increasing stocks to raise capital).

As a result, an alternate method which may prove feasible is to distribute dividends only for capital raised through shares to expand production at established enterprises, and not to employ the practice of distributing bonuses based on shares. In this case, the dividend rate may be a little higher, and may fluctuate. In terms of enterprise management policy decisions, an existing enterprise which employs the approach of raising capital through shares to expand production, since new funds added through stocks are but a fraction of the enterprise's total capital, may not convene general stockholders meetings or stockholders representative assemblies in the way newly established stock enterprises do, and through such a general membership meeting elect a board of directors. But the enterprise may employ the following somewhat flexible methods. One is still to establish a board of directors, whose membership ratio is to be determined based on the ratio of existing capital to funds newly added through stocks. The directors appointed by the original enterprise represent the existing capital, and the directors chosen from among the new shareholders represent the funds newly added through stocks. Of course this type of board of directors still is a stock enterprise board of directors in name only, since it is itself an interim mechanism. Another method is not to establish a board of directors, and to manage the enterprise in accordance with the organization and approach to policy decisions of the original enterprise; in addition, management would convene a new stockholders representative conference attended by representatives elected from among the new stockholders, and listen to their opinions and recommendations regarding management of the enterprise.

When an existing enterprise expands production by raising capital through shares, it may issue stocks to the enterprise's professionals, staff, and workers, and it may issue stocks to the public. The advantage of issuing stocks to the staff and workers is that it better links the interests of the workers and the interests of the enterprise. But if the scale of the existing enterprise is relatively large, the amount of funds it is able to raise from among the workers is, in the final analysis, limited, in terms of the enterprise's existing capital, and the funds raised by having workers buy stocks play a small role in developing the enterprise. Consequently, when the enterprise needs to add funds, it may issue stocks to the public.

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## TIANJIN MAYOR REPORTS CONSERVATION EFFORTS AT NPC

OW311305 Beijing XINHUA Domestic Service in Chinese 0209 GMT 31 Mar 87

[By reporter Jiang Zaizhong]

[Text] Beijing, 31 Mar (XINHUA)—Two months ago, Tianjin Mayor Li Ruihuan felt great pressure from the municipality's economic construction problems caused by a tight budget. Today, months later, he happily told the deputies attending a group discussion of the Fifth Session of the Sixth NPC that, thanks to the campaign to increase production and revenue, conserve resources and reduce expenditure, Tianjin's budget problem has been solved, and a new situation has arisen in the city's economic construction.

Tianjin's 1986 revenue was 5.19 billion yuan; but only 1.4 billion yuan are available for Tianjin after the bulk of the revenue had been turned over to the state according to regulations. Because of the tight budget, many projects were affected. Although the city's concerned departments spent days trying to deal with the problem, they could not find a solution. Later, implementing the central authorities' guideline, Tianjin launched a city-wide campaign to increase production and revenue, conserve resources, and reduce expenditure, the masses were mobilized, and many measures were proposed. During their inspection of major enterprises, Li Ruihuan and leading members of departments concerned discovered that the campaign had great potential. For example, when he checked the blueprints of major construction plans, he discovered that it was planned to use high-class aluminum alloy for window frames in a public building. He asked an official if there was a plan to install air conditioning. When he was informed that there was no such plan, Li said that, in that case, the windows need not be closed too tightly. Then he promptly instructed that steel be used for the window frames. Prior to his arrival in Beijing to attend the NPC session, Li Ruihuan inspected seven major construction projects and analyzed their blueprints. By improving design, reducing size, and lowering standards, he cut a total of over 40 million yuan from construction costs.

Thanks to a 2-month effort exerted by comrades of the municipal party committee, the municipal government, and departments concerned, Tianjin has achieved reasonable results by launching the campaign. After helping enterprises work out details and tap potential, Tianjin expects to increase revenue by 200 million yuan this year, instead of 100 million as previously estimated. On curtailing expenditure, Tianjin expects to save 140 million yuan—or 21.9 percent of the total local investment last year—by cutting investment in fixed assets, and to save 10 percent in administrative expenses.

## QINGHAI REPORTS ECONOMIC SUCCESS, PROBLEMS

HK180605 Xining Qinghai Provincial Service in Mandarin 0430 GMT 18 Apr 87

[Excerpts] Our station reporter (Bu Guangliang) learned from a press briefing given by the provincial statistics bureau on 16 April that Qinghai's economy recorded sustained and steady development during the first quarter. The drive to increase production and practice economy is yielding results. Local financial revenue rose by 13 percent compared with the same period last year, while expenditures dropped by 4 percent.

The counties in the agricultural area of the province have actively fought drought and carried out spring sowing. By early April the province had sown crops on 3.7 million mu, representing 63 percent of the year's plan. Spring sowing in the eastern agricultural area had been basically completed.

In industrial production, the province registered relatively rapid growth, in contrast to the rather slow start in the same period last year. Industrial output value in enterprises covered by the province's plans was 450 million yuan, a rise of over 20 percent over the same period last year. This was the fourth highest rise for the period in the whole country.

Notable success has been achieved in compressing the economic atmosphere. This is shown by the fact that construction of key projects has speeded up, while investment in ordinary projects has declined.

During the press briefing, the provincial statistics bureau reminded the province to pay attention to the phenomenon of attaching little importance to grain cultivation and abandoning farmland in the agricultural areas. In industrial production, it remains necessary to resolve properly the problem of declining economic results. The statistical data show that performance was poor in a number of major economic indicators in the first quarter, including profit from sales and the amount of floating capital tied up in finished goods. There are still serious stockpiles of certain products. Attention is required to these points.

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## METHODS TO ALLEVIATE STEEL SHORTAGE DETAILED

HK040850 Beijing JINGJI GUANLI in Chinese No 2, 1987 pp 12-15

[Article by Dong Yizheng [5516 6318 2973]: "Ways to Alleviate the Steel Supply Shortage Situation"—edited by Liu Jichong [0491 0366 2490]]

[Text] The steel supply shortage has currently become one of the important factors restricting the development of the national economy. In recent years, every year we have had to rely on a large amount of imported steel to make up for the insufficiency. According to estimates made by various sides, the tense situation in the supply of steel materials in our country is expected to continue for a rather prolonged period. But it is still possible to ease this problem to a certain extent. We will not only have to rely on the production departments to strive to increase output but also count on society as a whole to make joint efforts to practice savings in the use of steel products and in cutting down the quantity of steel materials held up in warehouses. At the same time it is necessary to macroeconomically control the scale of fixed assets investments. In other words, the ways lie in "opening up sources, practicing savings, controlling investments, and cutting down on the stockpiling of steel materials."

"Opening up sources" here refers to domestic iron and steel enterprises internally devoting their efforts to increase production. In recent years, in this regard the iron and steel industry has achieved certain successes. In the Sixth 5-Year Plan the annual gross output of the iron and steel industry was 46.79 million tons. In particular, in the last 3 years of the Sixth 5-Year Plan, under the conditions that basically there was no new increase in the production capacity and that we depended on tapping the hidden potentials and technically transforming existing enterprises, on the average there was an increase in production of 3 million tons of steel each year. It is anticipated that in 1986 there was a further production increase of over 3 million tons of steel, bringing the total output for the year to over 50 million tons. From now on, it will be rather difficult to maintain this pace of progress. It is necessary to grasp the problem with two hands—one hand holding the tapping of the potential of old plants and the other hand holding the expansion of existing plants and enterprises and the establishment of individual new plants.

Currently, certain people believe that through the years the continuous tapping of enterprises' potential should have about exhausted all the potential that can be tapped. These views are at the least not comprehensive enough. The tapping of the potential we have been talking about is not of a static nature. Rather, the potentials are realized through the technical transformation campaign together with the continuous intensification and strengthening of administrative and management work. Hence, accompanying the development of production, new hidden potentials have continuously come into being. For example, during the Sixth 5-Year Plan, in the whole country, aside from Baokang's large blast furnace adding a new production capacity of 540,000 tons and certain individual enterprises adding several medium-sized blast furnaces of a capacity of 300-600 cubic meters each, no other large blast furnaces were built and reliance was mainly on raising the blast furnace utilization coefficient in existing enterprises to increase production. Throughout the 5 years the coefficient was raised by 0.1 ton bringing about an increased output of 300 tons of pig iron. In 1986, in the blast furnace system, a series of nationwide competitions were held and through strengthening management, tapping hidden potential and renovation, the blast furnace utilization coefficient in major enterprises was again raised by 0.026 ton. According to estimates, this feat alone has enabled the country to increase the output of pig iron by 0.7 to 0.8 million tons a year. It can thus be seen that the hidden potentials in this respect are truly vast.

Naturally, by merely relying on tapping hidden potentials it is difficult to meet fast developing demand for steel materials and it is still necessary to perform a good job in transforming, coordinating and expanding existing plants and also, if conditions are advantageous, in newly establishing individual iron and steel plants. In 1986, the state had already adopted the system of input-output contracting in the iron and steel industry, anticipating that by 1990 steel output would be over 60 million tons. Nevertheless, this is still insufficient. Hence, a new road must be looked into. Under conditions which do not adversely affect the domestic market, we may consider borrowing certain amounts of foreign capital to accelerate the development of our iron and steel industry and reach the objectives of replacing importation with production and gradually reducing steel material imports. In the development of their iron and steel industry, Japan and certain developing countries have all followed this course. We should select certain projects which yield good investment results, utilize foreign capital, and speed up development. This cannot only increase production but also improve our iron and steel industry's level of technological equipment and operation and management level.

It is important to talk about utilizing resources and increasing output but there is still the problem of readjusting the product structure and improving the quality of products. Prolonging the life of products and increasing the variety of marketable products also implies an effective improvement in quality and an increase in quantity. The major point in this development is to greatly emphasize making highly effective steel materials out of low-alloy steel. For example, in the case of railway coaches and cars in our country shifting over to the use of steel materials which are resistant to atmospheric erosion, their overhaul period has been extended from 5 to 6 years in the past to as long as 12 to 18 years, thus effecting enormous savings in the consumption of steel



materials. Again for example, the ratio of the consumption of axle steel out of the total steel output has not been lower than that in Japan and West Germany and the absolute quantity has also not been smaller than theirs although the supply still cannot meet with actual needs. The problem lies in the lack of a complete assortment of varieties and in the poor quality of the product. If the specific gravity of the axle steel tube is increased and the number of tubes is decreased, then even if there is no increase in the quantity of axle steel, the output of axles can be greatly increased. In addition, we should follow market needs and increase the varieties and specifications of the various kinds of economic-type steel and strive to raise the total completion rate of steel materials. All this can effect an increase in the output volume of steel materials without increasing the quantity of steel consumed and constitutes an effective road to raising the utilization value.

"Savings" refers to savings in steel materials. In one sense, this is even more important than increasing the output of steel materials and is even more significant. If we do not strictly save, then despite an increase in output, supply and demand still cannot be balanced. In our country at present, in saving metals, whether ideologically or factually, it would be far better to concentrate on energy savings. In reality, steel materials themselves are large carriers of energy. From the processing of ores to the production of one ton of steel products roughly 1.7 tons of standard coal will be required, equivalent to 4,000 kwh of electricity. Hence, savings in steel products not only means an increase in steel products but also means savings in energy. Conversely, this creates conditions for increasing the output of steel products.

Savings in steel products includes savings in the iron and steel industry and also savings for society as a whole. From the standpoint of the iron and steel industry, in production process, this requires efforts to effect savings in the consumption of various kinds of metallic materials and principally calls for cutting down the consumption of iron and steel materials in the metallurgical process, reducing the conversion of pig iron in refining steel and reducing repeated heatings in steel rolling. In the Sixth 5-Year Plan, there was a decrease in the consumption of ores and steel materials in refining one ton of steel and in the major enterprises in 1985 the consumption of iron and steel materials was as follows: Top-blown converter furnaces averaged 1,133 grams, open hearth furnaces averaged 1,105 grams, and electric furnaces 1,040 grams, all of which were lower than in 1980. However, compared with industrially developed countries, our consumption of materials in steel making is still too high. The conversion of pig iron into refined steel not only wastes coke but also involves a loss of 2 to 3 percent of pig iron. Because of the repeated heatings in steel rolling each time the steel ingot is heated a loss of 1 to 2 percent of the metals is customarily involved. Adding together these several incidences of losses, each year about 1 million tons of steel are lost. To rectify this situation will naturally take a long time. It will require making all-round arrangements and carrying out the transformation and coordinating work of existing enterprises. At the same time it is necessary to improve and strengthen management and control. Furthermore, we must formulate various measures to save various metals and provide rules for

awards and penalties. For the present, although rules for savings awards have been formulated, basically it is like "whipping a speeding ox." We should enforce a sort of up-to-the-level award and those who for a long time have sustained an international level of performance should be heavily rewarded.

Social savings extend far and wide. Despite the current stringent supply of steel materials an atmosphere of the meticulous use of steel materials has by no means been formed. It is thus necessary that in society as a whole and in each and every unit an atmosphere of this kind be formed so that everybody will be concerned and actively take part in this important matter of saving steel materials. Big jobs are completed through the patient accumulation of small pieces of work such as accumulating sands and stones to build towers and lining of small wealth will be created for society.

To save steel materials in actual usage basically requires the use of new technology and new artcraft. At present in our production in motor vehicles, farm machines, and many kinds of equipment, the quantity of steel consumed is usually higher than that of foreign countries. Here the problems involved are those of the quality of steel and the kind of artcraft employed. Much effort will have to be expended in order to solve these problems. At present, the wastes incurred in actual usages are actually seen on two sides. One is the use of first-rate materials on second-rate jobs, or putting high talents to small uses, so to speak; the other is the use of second-rate materials on first-rate jobs. So-called using first-rate materials on second-rate jobs implies that while the quality and capability of the steel materials have been improved, there has been no change in the planning scope which results in the making of new products according to the old process, namely, a surplus in quality and literally a waste and an extravagance. For example, Wuhan Steel annually turns out 70,000 tons of cold-rolled silicon steel, but in making electrical machines and transformers the users have continued to use hot-rolled silicon steel and a low-brand of cold-rolled silicon steel. The results are a waste of materials and a waste of electrical power and energy. Hence, following the development of new varieties of steel products and the completion of the batch process, it is necessary to correspondingly revise the planning scope. At the same time, iron and steel enterprises must be able to attend to production in a coordinated manner while the materials departments must also provide the supplies in a coordinated manner so that working from various sides conditions are created for superior materials to be truly put to superior use.

The tendency to put inferior materials to superior use similarly causes an enormous waste. In particular, under the present conditions of paying close attention to economic benefits, certain units, emerging from the narrow viewpoint of caring only for their own interests, have used ordinary steel products when steel products of superior quality should be used and used dynamic steel when static steel should have been employed. In the short-run this practice may save some money but in the long-run it should be adjudged as a huge extravagance.

Moreover, we must mention that the quantity of cast iron produced in our country is highly irrational. The steel output of our country is only about 40 million tons, lower than that of the Soviet Union, Japan and the United States. But the annual gross output of cast iron surpasses the total output of Japan, the United States, the FRG, the United Kingdom, and France, and the relative weight of cast iron in the output of pig iron is as high as 22 percent. Although this is related to the backward state of the industrial structure and the product structure of our country, it still must be said that a substantial portion of its output has not been used properly. For example, in recent years, in an attempt to beautify the environment of cities and towns, many flower beds and pedestrian sidewalks have been fenced in by cast iron railings. It is estimated that roughly 20 to 30 tons of cast iron are required per kilometer. On a nationwide basis, this adds up to an enormous figure. Under the current conditions of a steel shortage, it seems that wastes of this nature should be avoided.

"Controlling investments" refers to the control of fixed assets investments. This is truly an important macroeconomic measure to be adopted to ease the contradiction in the supply and demand for steel products. Taking a long-term view, by the year 2000, the gross industrial and agricultural output value on a 1980 basis will be quadrupled. Naturally, fixed asset investments must show a corresponding increase. But the growth in fixed asset investments must be accompanied by corresponding increases in the supply of raw materials, including steel products, to serve as a material basis. If the definite limit is exceeded, inevitably a sharp contradiction in the supply and demand of steel materials will result.

For example, take the case of the Sixth 5-Year Plan. During this plan the average annual growth rate of fixed asset investments in units owned by the whole people was 17.2 percent, the growth rate in investments by collectively-owned units and individuals was even higher but the annual growth rate in steel production was only 6 percent. Obviously, this was hardly in accord with the speed of the growth rate of fixed asset investments. Particularly in the second half of 1984, fixed asset investments increased sharply. In 1985 fixed asset investments in units owned by the whole people increased by 39.4 percent over 1984 and very soon a hightide of crash purchases of steel products appeared on the scene. The consultation prices of steel materials were 100 to 200 percent higher than the prices of state-assigned steel products. Conditions of this kind were highly injurious to the development of the entire national economy.

Controlling fixed asset investments controls not only the capital construction scale but also the speed of the development of production. During the Sixth 5-Year Plan, the average annual growth rate of the gross industrial and agricultural output value was 14.9 percent and particularly in 1985 the growth rate exceeds that in 1984 by 27.5 percent, both of which far exceeded the growth rate of the output of steel materials. Conditions of this kind can hardly be sustained for long.

Seen from the materials of certain countries, when the per capita GNP of a country is lower than \$1,000, the steel materials consumption strength (that is the steel materials consumption volume per \$1 GNP) shows an upward trend. It is true that countries differ from each other in their national conditions



and in the length of time of their per-capita GNP standing at \$1,000, and therefore this may not necessarily apply to all cases. At present, our country's per capita GNP is lower than \$1,000 and hence during this period, although the growth rate of the volume of consumption of steel products may not be higher than the growth rate of the GNP, it should at least not be much different. Actually, in recent years, for the sake of satisfying the country's domestic production and construction needs, large quantities of steel materials have had to be imported. The increase was from 3.39 million tons in 1982 to 19.63 million tons in 1985. This is a case in point.

Naturally, controlling fixed asset investments is not necessarily for the sole purpose of easing the supply and demand contradiction in steel materials. But to ease this contradiction, it is now necessary to control fixed asset investments. Following the control effected on fixed asset investments in the second half of 1985, the condition of supply and demand in the steel materials market took a turn for the better and in the markets the consultation price of steel materials began to show the condition of being stabilized and tended to fall. This sufficiently serves to explain the necessary and urgent nature of controlling fixed asset investments.

Reducing the stockpiling of steel products. This refers to cutting down on the quantity of steel stored in warehouses or stores. According to statistics, at the end of June 1986 some 26.80 million tons of steel products were stockpiled in stores or warehouses, an increase of 6.7 million tons over the early part of 1985 and equivalent to 18 percent of the 1985 national steel output. If indeed the stockpiling was reduced by 10 percent, then 2.67 million tons less of steel products could have been imported.

Is there any ground for reducing the stockpiling figure? This depends on an analysis of the causes leading to the increases in stockpiling.

First, the reason why the quantity of steel products stockpiled in our country is so large may be traced to the structure of the distribution and allocation of steel products. The 20 million odd tons of steel products stockpiled in our country is by no means concentrated in the supply departments and far less in the steel plants producing the steel products. Rather, it was distributed among the several scores of plants, units and departments using steel products. For many years steel products required by the several scores of enterprises in our country have been derived from our materials departments by placing orders for them and obtaining them in a unified manner, habitually twice every year, that is, during industry conventions. Thus, this has generally determined that the turnover period of the steel products in stock has been in the neighborhood of half a year. Moreover, under the current planning structure, the usual practice is to place orders for steel products first and then follow up by issuing production plans afterwards. At the time of placing the orders there is no reliable basis to fall upon and hence it is quite possible that what has been ordered may not suit the actual uses, and consequently, stockpiling results. Individually the quantity of stockpiling per unit may not be large but collectively when several hundred thousand enterprises are involved, the cumulative figures are enormous.



Second, psychologically, the "scarcity panic" is also another cause. The scarcer steel products are, the greater the users' wishes to procure more of them. "With steel in hand, there will be no worries." Hence, short-line steel products, that is, steel products in short supply, are what everybody will scramble for, and the scarcer they are the harder the fight will be for them. Of the increased output of some 3 million tons of steel products in 1986, 70 percent belonged to the category of products which had been in short supply in the markets for a long time, such as medium and small types of steel, wire rods, medium-thick steel plates, etc. This is a case in point. A similar situation appeared in 1980. At that time the quantity of steel products stockpiled in the whole country was also in the neighborhood of 20 million tons. Because of this, the metallurgical departments organized forces to conduct a survey over several months of the situation in the country. The conclusion was that the increases in stockpiling occurred mainly in those steel products in short supply while the stocks of steel products in abundant supply appeared to have been reduced. The actual consumption volume of steel products in short supply was lower than the required volume fixed by resources supply departments, while in the case of steel products in abundant supply the actual consumption volume was higher than the volume said to have been needed by the natural resources departments. Although there is not enough time now to make an overall analysis and investigation, still judging from a rough analysis of statistics, the situation should be about the same as that in 1980. This abnormal phenomenon fully illustrates the irregular psychology arising from the drawbacks in the distribution and allocation structure.

Naturally, we must note that in certain cases the increases in the stockpiling of steel products were due to the product varieties not being exactly marketable. However, at present the organization of the production of steel products is in accordance with contracts and hence under ordinary conditions the products can hardly be unmarketable. As for the wrongdoings on the part of the plants and enterprises, such as willfully and in a high-handed manner mixing up the contracts or deals which resulted in the users being unable to put the products to their intended uses, this may result in a stockpiling phenomenon. In addition, too large a volume of steel imports from abroad may also result in an abnormal increase in the stocks of steel products on a countrywide basis.

Analyzing the above-mentioned conditions, it was found that there is every possibility of depressing the stockpiling of steel products and that the key lies in devoting efforts to reforming the structure. We must strive to increase the fixed supply of steel products and perform well the job of liaising between the production and demand of the products. This can reduce the quantity of stocks stored by users. As for small and sundry orders, the goods may be procured by vouchers from nearby material resources departments to avoid holding up stocks level by level, trade by trade, household by household, and the situation of the supply of goods literally coming to a dead end. Naturally, to break antiquated customs and practices will necessarily generate certain new problems. The problems may be solved gradually in the piloting processes.

In short, to ease the situation of the tense steel supply is an enormous project requiring meticulous care in handling. It requires on the one hand a macro-economic study of the countermeasures and on the other hand the adoption of microeconomic measures. It requires both iron and steel enterprises striving hard to produce more steel products and the formation of a good atmosphere of economizing in the use of metallic materials in society as a whole. If all the parties concerned can lend a helping hand, the situation can certainly turn for the better.

## SHANGHAI MARKETS TO BUY, SELL MEANS OF PRODUCTION

Shanghai WEN HUI BAO in Chinese 11 Feb 87 p 1

[Article by correspondent Zhang Debao [1728 1795 1405] and reporter Wang Yongqi [3769 3057 4388]: "Shanghai Means of Production Markets Exhibit Vitality; Unclogging of Channels, Enlivening of Circulation, Increasing Materials Resources, Promotion of Production; Statistics From 13 Trade Centers in the Materials System Show Volume of Sales and Transactions of 4.7 Billion Yuan For Past 3 Years"]

[Text. Statistics from units concerned show 13 composite designated materials trade centers as having been established throughout Shanghai and 80 materials markets as having been built in suburban counties. This marks a further deepening of reform of the Shanghai materials system and a gradual change in the former closed and inflexible situation that existed in Shanghai's means of production markets.

These changes have been manifested in the burgeoning of materials trade centers of all kinds and a substantial increase in the number of materials business network outlet points. Statistics show that following reform of the materials system, the city's industrial sector set up more than 10 trade centers for construction materials, iron and steel, and textile raw materials. Commercial and supply and marketing units also operated more than 10 trade centers, some of them dealing exclusively in the means of production, such as markets for transactions in materials used in Shanghai, and some of them dealing in the means of production as well as other things, as is the case with the Shanghai Industrial Products Trade Center. The main role of these materials trade centers is to provide service, to orient themselves toward the whole country, and to buy and sell freely at flexible prices. Overall, the volume of buying and selling has increased. In the 13 trade centers in the municipal materials system alone, between 1984 and the end of October 1986, the volume of sales and transactions approached 4.7 billion yuan. Both the kinds of goods handled and the kinds of services provided rose; the area served became wider, and the trade centers played an ever larger role in keeping open the channels of flow, in enlivening circulation of commodities, in increasing sources of raw materials, and in advancing production.

In order to meet needs in the developing situation, city and county materials units have added quite a few business network outlet points in recent years.

Industrial units have built quite a few new supply and marketing management units, business units, and retail units. Both business and supply and marketing units have also added a number of network outlet points and stores for the sale of the means of production. Currently, supply and marketing outlet points operated by the city and county materials system itself number 1,040, and there are more than 1,100 jointly operated and commissioned network outlet points. There are between 400 and 500 network outlet points for the sale of the means of production operated by industrial units. Network outlet points operated by commercial units and by supply and marketing units number between 300 and 400. The number of materials marketing organizations set up in Shanghai by central government organizations and by fraternal provinces and cities are also increasing daily. As a first step, embryonic means of production markets have come into being in which materials circulation units form the main channels with multiple converging channels and multiple levels, and in which there is both a division of labor and overlapping. Personnel concerned in the materials supply system believe that though Shanghai means of production markets have developed fairly rapidly and have scored definite achievements, they are still far from being able to meet needs in the developing situation. This shows up primarily in the "three much and three little" existing in materials trade centers, namely, much at low levels and little at high levels; much in the way of operations but little in the way of services and service operations; much service to medium-size and small enterprises, and little service to large enterprises; locations are small and narrow; facilities are inadequate; funds are in short supply; and service is not very good. The percentage of planned external procurement and marketing remains not very large. For example, sales volume in materials units trade centers currently stands at about 20 percent of total sales volume for the entire bureau. Materials resources produced in Shanghai and nationally renowned products are not much attracted to these centers; and the markets' internal system is still a long way from being perfected, etc. In this regard, it has been recommended that Shanghai build the country's largest collection and distribution point and trade center for means of production, the better to serve the entire country, to hasten development, to perfect Shanghai's means of production markets, to build as quickly as possibly high-level, large, multiple, large-volume, multifunction, open materials trade centers, to adopt preferential treatment methods and multiple channels for attracting resources, to open wide the gates, to welcome the establishment in Shanghai of sites or joint operations for the sale of the means of production from all parts of the country, thereby gradually forming and perfecting a socialist market system.

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## NEW BUSINESS LINKS FORGED BETWEEN SHANGHAI, GUANGDONG

Shanghai WEN HUI BAO in Chinese 20 Feb 87 p 1

[Article by correspondents Yue Di [2867 6611] and Feng Xuefeng [7458 1331 6912]: "Economic Marriage Between Shanghai and Guangdong Promotes Prosperity For Both; Various Kinds of Lateral Links Constantly Appear In the Form of Joint Enterprises, Cooperation Between Industry and Trade and Between Industry and Commerce, Exchanges of Skilled Personnel, and Investment Between Areas, With Constant Expansion of Size as Well"]

[Text] Lateral intercourse has developed rapidly between Shanghai Municipality and Guangdong Province. Varied in form, it consists not only of traditional business cooperation and more frequent exchanges of commodities, but different kinds of economic links have also appeared, including joint enterprises, cooperation between industry and trade and between industry and commerce, exchanges of skilled personnel, and investment between areas. Supply and marketing outposts set up by Shanghai entrepreneurial units alone in the two special economic zones of Shenzhen and Zhuhai, as well as in other areas and cities of Guangdong, already number several hundred. Household electrical appliances, beverages, and cigarettes produced in Guangdong move into Shanghai in a steady stream, promoting the prosperity of both places.

In order to make the most of the advantages of both Shanghai and Guangdong and to do a good job in developing interregional economic ties between the two areas, in recent years both Shanghai and Guangdong have constantly dispatched various kinds of delegations for mutual visits and talks. In December 1986, The Shanghai Municipal Economic Committee sent out a team of experts carrying 178 technical achievements to Foshan City for joint discussions on the turnover of technical achievements to local enterprises. Foshan City organized a study team at once for an exchange of views, and within 4 days agreement was reached on plans for the turnover of 96 of them, contracts being signed on the spot for 20, thereby "putting "rice" in the "pots" of medium-size and small enterprises in Foshan.

Following the opening to the outside world and reforms, Guangdong took advantage of its geographical advantages to import a number of advanced production lines from outside China. It ran into problems, however, in digesting and absorbing them because of the lack of technical control personnel. At the same time, old enterprises in Shanghai were facing



difficulties in expanding reproduction resulting from the age of their equipment. So, one after another, enterprises in the two areas entered into "marriages" with each other, applying each others' strengths to compensate for their own weaknesses. The Haikou Tire Plant had an advanced tire production line, and the Shanghai Da Zhonghua Rubber Plant sent technical control personnel to assist the Haikou plant to digest and absorb technology and to turn out a standardized name brand product, "Double Coin Tires," which has entered international markets. Similarly, blends, technical standards, and controls provided by the Shanghai Cigarette Factory, and local raw materials were used on a production line that the Meixian Cigarette Factory had imported from abroad to turn out very much sought after "Peony Brand" cigarettes. This both satisfied market demand and provided economic benefits for enterprises in both places.

An unprecedented expansion has also taken place during recent years in dealings between traditional businesses. One-third of the goods sold in south China's largest department store, "Nanfang Daxia," come from Shanghai, and half of the products sold in Guangzhou's largest "Cosmetics Consortium" are produced in Shanghai. The Guangzhou-Shanghai Construction Hardware Consortium, which is jointly operated by the Commercial Trust Trading Co of the Guangzhou Bureau of Commerce and the Construction Hardware Wholesale Department of the Shanghai Bureau of Commerce, shipped large amounts of Shanghai's fine-quality construction hardware to Guangdong and neighboring provinces, and shipped large amounts of raw and processed materials from south China to Shanghai, making a profit of 1 million yuan in 1986, or a profit of 100,000 yuan per person in the hardware consortium. The first joint commercial communications products business office to be set up in Guangdong Province by Shanghai opened on 18 February 1987 in Guangzhou. This business office was jointly funded by Shanghai and Guangdong companies for the purpose of doing business in Shanghai communications products.

Shanghai municipal departments concerned have also invested actively in undeveloped areas of Guangdong, supporting economic development in mountain and lake areas. As one example, the Shanghai Municipal Economic Committee has invested in the opening of a clock and watch plant, handicraft factories and tourist schools in Doumen County's famed "Baiteng Hu Vacation Village," where it has also built tourist hostels that have both developed the local economy and trained skilled people and provided another tourist spot for people from Shanghai.

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## CHOICES COUNTRY FACES IN RESUMING GATT MEMBERSHIP

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 3, 27 Mar 87 pp 16-18

[Article by Xu Haining [1776 3189 1337]: "China Applies for Resumption of its Status as Contracting Party to the General Agreement on Tariffs and Trade"]

[Text] Last July, China formally applied to the General Agreement on Tariffs and Trade [GATT] for the resumption of its status as a contracting nation. Now at last, this important step that China is taking to join the international community is on the agenda. The General Agreement on Tariffs and Trade, the International Monetary Fund, and the World Bank can be described as the triumvirate pillar of the world economic system after the war, but it is GATT which has had a more substantive impact on the world economy than the latter two. GATT countries at present account for more than 85 percent of world trade and over 85 percent of China's foreign trade. Thus, the resumption of China's membership will bring about its full integration into the international economic community and consolidate its economic ties with the rest of the world.

GATT is a multilateral international agreement on the norms for tariffs and trade. It is also the leading international organization for the intervention and negotiation of world trade. Upon its entry into GATT, China must make a host of preliminary choices regarding its rights and obligations. These preliminary choices will have enormous significance for China.

As far as rights are concerned, the preliminary choices mainly relate to the determination of China's status as a developing nation within the GATT. GATT was founded primarily by a few developed, capitalist countries. It wasn't until later that the organization was expanded to include the many developing countries that it does now. In 1965, GATT was enlarged with the addition of Part IV, which specifically deals with the trade and development issues of developing countries. It provides that "developed contracting parties do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to the trade of less-developed contracting parties." Before then Article 18, which allows developing countries to apply quantitative restrictions, was the only provision in GATT aimed at those countries. In recognition of their chronic balance of payments deficits, which are a structural characteristic of developing countries, and their need to protect fledgling domestic industries,

the article permits them to "apply quantitative restrictions for balance of payments purposes." Other pertinent GATT documents also provide that developed contracting parties shall neither seek nor demand tariff concessions from less developed contracting parties not consistent with their fiscal or trade policies. To a certain extent, the above-mentioned GATT provisions and other relevant regulations single out less developed contracting parties for preferential treatment. Based on these provisions, developing nations can obtain various preferential treatments unavailable to other contracting parties. It can thus be seen that determining China's status as a developing nation within GATT indeed constitutes an important basis for shaping its rights under the agreement.

While China is a socialist country and has some of the classic features of a centrally planned economy, it should not be considered a state-trading nation of the Eastern European type. Instead it should qualify indisputably as a developing country for these reasons:

First, China shares some common features with developing countries, such as a low gross national product [GNP] per capita. According to the "World Economic Report 1985" put out by the World Bank, China's GNP per capita in 1983 was merely \$280. It is internationally recognized that GNP is a comprehensive indicator of a nation's level of socioeconomic development and is also an important yardstick that international agencies such as the World Bank rely on to classify countries. Another characteristic is the structural fragility of its balance of payments. Half of China's exports are oil and textiles. Revenues from oil exports are extremely unstable while the expansion of textile exports is subject to severe constraints.

Second, China has firmly abandoned the traditional development model of the Soviet Union and Eastern Europe in favor of practices similar to those in developing countries and, like many of them, it faces the problems of further industrialization. Developing countries in the midst of industrialization must urgently solve two problems. One is technology importation. These countries depend mainly on the expansion of modern industries for rapid economic development. Since gradual domestic accumulation cannot bring about rapid industrialization, it becomes critical to import from abroad (primarily industrially advanced nations) advanced technology and equipment on a sufficiently large scale. The second problem is whether a developing nation can raise enough funds to pay for all its technical imports. China, which also faces these two problems, has decided that its overall foreign economic relations, trade, and technical exchange during the Seventh 5-Year Plan should revolve around the earning of foreign exchange generated by exports. Moreover it is going all out to use foreign capital and import technology, which have become vital strategic elements impacting the future of its policy of opening to the outside world.

Third, if we go by China's traditional principles and practices vis-a-vis the international community, it also indisputably belongs to the ranks of developing countries. At the United Nations, for instance, China has upheld the principles and behaved in a manner characteristic of a developing country. In 1972, in particular, China participated in the activities of the United Nations Conference on Trade and Development [UNCTAD] as a developing nation

and became a beneficiary of the Generalized System of Preferences which UNCTAD successfully negotiated. As a key forum for the North-South dialogue, UNCTAD is closely related to GATT.

Turning to obligations, China's preliminary choices will determine the form its obligations under GATT will take. This is an even more complex matter.

GATT is a multilateral international accord. All contracting parties must assume certain obligations, which differ only in form. The agreement, whose underlying philosophy is free trade, basically aims at reducing and removing tariffs and other barriers to trade through the application of unconditional most-favored-nation treatment and promoting trade liberalization to make full use of the resources of the world and expanding the production and exchange of goods. The original primary intent of GATT was to reduce and remove tariffs. Because of the critical role tariffs play in market economies, countries with a market economy all pledged to grant tariff concessions as their obligations when they joined GATT. Multilateral trade negotiations also focused on tariff concessions for a long time after GATT came into existence. It was not until the Tokyo round of trade negotiations that non-tariff barriers began to assume growing importance in trade talks. The acceptability of GATT to countries with widely different economic and trade systems was considered even when it was first drawn up, which explains why the "Protocol of Provisional Application" provides that contracting parties may apply Part II of the General Agreement "regulating the trade policies of contracting parties" "to the fullest extent not inconsistent with domestic legislation." Thus GATT is flexible and elastic when it comes to accommodating different member nations. Be that as it may, in principle GATT was created for market economies and contains no special provisions for centrally planned economies. Accordingly the accession of countries that practice central planning has posed new problems for GATT ever since its inception.

Today a succession of countries with centrally planned economies has joined GATT. Their obligations upon accession fall into two categories. One category is represented by Poland and Rumania, which committed themselves to increasing imports. The other includes Hungary and Yugoslavia, which undertook to grant tariff concessions. China may choose an appropriate form of obligation based on the experience of Eastern Europe by combining its actual circumstances and the evolution which GATT itself has undergone.

Judging from the experience of these nations, China today more closely resembles Rumania and Poland in its economic and trade systems, and so it may seem more advisable for it to undertake to increase imports upon joining GATT. But certain new developments inside GATT and China's concrete realities combine to make tariff concessions a more suitable obligation for China when it accedes to the General Agreement.

Since it came into force, GATT has undergone a series of changes in recent years, notably the declining role of tariff reduction negotiations and the rising importance of negotiations on the elimination of non-tariff barriers. In the past few years, protectionism has posed an increasing threat to world trade, with current protectionist measures shifting from tariff to non-tariff barriers. Under GATT, contracting parties "shall use only tariffs but not



other commercial devices to protect domestic industries." Both this principle and the notion of "general elimination of quantitative restrictions" have been seriously eroded. Statistics from parties concerned show that there may be over 1,000 non-tariff barriers of all descriptions. Because protectionism in world trade more and more takes the form of non-tariff barriers, world trade has not expanded at a rate commensurate with the successive reductions in tariffs. According to estimates in the "International Trade 1985-86," a GATT report issued in early September 1986, international trade grew about 3 percent in 1986, the same rate as in 1985, far lower than the average rate of 5.5 percent in the 1970's. With the new situation in world trade in mind, the new round of trade negotiations currently under preparation will focus on restricting non-tariff barriers, targeting especially the elimination of the abuses of safeguard provisions. The new situation in international trade has made GATT shift its attention to non-tariff barriers. Even more significant, the obligations of contracting parties to reduce tariffs under GATT have also been greatly diminished because of the corresponding decline in the importance of tariffs. Under these circumstances, if China undertakes to increase imports in accordance with the principle of reciprocity when it joins GATT, its obligations would seem relatively onerous and it would also be subject to numerous constraints. This will put China at a disadvantage and in a passive position.

If China undertakes to increase imports, it will have a relatively onerous obligation, which also carries with it certain risks. This is true whether China is required to meet a specific minimum export growth rate, as Poland is, or whether the projected export growth rate in its 5-Year plan is used as a floor, which is the case in Rumania. In 1984-85, excessive domestic investments in China and soaring exports led to a large balance of payments deficit and a precipitate drop in its foreign exchange reserves, thus worsening the nation's foreign exchange revenues and expenditures. On the other hand, although China's exports have grown rapidly since the late 1970's, the pace has slowed in recent years and has even begun to stagnate. According to relevant statistics, Chinese exports expanded at the following rates in the past few years compared to the preceding year: 1987 [as published], 28 percent; 1979, 40 percent; 1980, 33.8 percent; 1981, 14 percent; 1982, 4 percent; 1983, 1.7 percent; 1984, 10 percent; and 1985, 5.5 percent. The nation's capacity for earning foreign exchange from exports determines the scope and extent of its foreign economic relations, trade, and technical exchange, and certainly influences the magnitude and speed of export expansion. Consequently, by choosing to undertake to increase imports upon acceding to GATT, China may put itself in a passive position fraught with risks.

Tariffs do not play a significant role in China at present. Out of consideration for the changing realities in world trade and within GATT itself, however, it will be more appropriate for China to grant tariff concessions as its obligation. This is because as far as tariffs are concerned, centrally planned economies differ substantially from market economies. In the case of non-tariff barriers, there are no major differences between them. At a time when the center of activity of GATT is beginning to shift to non-tariff barriers, it is both possible and feasible for China to choose to grant tariff concessions in order to fulfill its initial obligation

under GATT. This choice will not dilute China's obligations excessively or deviate from the principle of reciprocity. In recent years, moreover, China has made a series of changes in its customs system and drawn up a new set of tax regulations based on the commodity classified list of the Customs Cooperation Council (the Brussels Tax Schedule), which is widely used in the world, in order to facilitate analysis and comparison with foreign nations, bring its regulations closer in line with GATT regulations, and make negotiations with contracting parties easier. This can be regarded as an adjustment by China in preparation for entering GATT. Meanwhile, it has shown an even greater determination to reform the domestic economic and foreign trade systems. As reform gets under way, there has appeared an irreversible trend toward injecting stronger and stronger dosages of the market into China's economy, which will also expand the role of tariffs in the country's foreign trade. It is exactly because of tariffs' limited role in its foreign trade at the moment that China should be able to make a certain national commitment even as it chooses to grant tariff concessions as it joins GATT, and that is the commitment to continue to reform the domestic economic and foreign trade systems so as to bring them closer to GATT regulations and integrate China's economy more fully into the international market. Finally, choosing tariff concessions as its obligation will also create a favorable external condition for China's reform.

12581

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## ANHUI TEXTILE INDUSTRY SETS COURSE FOR FOREIGN MARKETS

Hefei ANHUI RIBAO in Chinese 6 Feb 87 p 2

[Article by correspondent Ma Biling [7456 3880 3781]: "Province's Textile Industry To Carry out Strategic Shift; Emphasis To Be on Production, Circulation, and Expansion of Export Foreign Exchange Earnings"]

[Text] The correspondent obtained the following from the Provincewide Conference of Textile Industry Managers (bureau directors): Anhui Province's textile industry will make a strategic shift in 1986 from primary emphasis on the domestic market to the earning of foreign exchange through exports while continuing to supply the domestic market. In the export of textiles, a rapid shift will be made from winning victory through quantity to winning victory through quality.

Director Yan Lin [0917 7207] of the Provincial Textile Industry Department told this correspondent that the strategic shift in the province's textile industry is in accordance with strategic decisions made by the CPC Central Committee and the State Council to expand foreign exchange earnings from textile exports and to boost the textile industry. Anhui Province has many favorable conditions for the development of textile exports to earn foreign exchange and bring about a strategic shift in the textile industry. A definite basis already exists for textile exports, the province's volume of transactions for textile exports having amounted to more than 400 million yuan in 1986. The province has its own advantages in raw materials for textiles, notably that rabbit fur, ramie, silkworm mulberry, and down are fairly plentiful. The province's proximity to coastal areas is advantageous for the widening of domestic markets and for the development of economic and technical cooperation. Advances have also been made in technical transformation during the past 2 years, a number of new construction projects having gone into production to increase the reserve strength of the province's textile industry.

How will the strategic shift be implemented? The Provincial Department of Textile Industry has made the following decisions: First is an increase in the degree to which products are processed. Everything possible is to be done to increase the extent to which products are processed and to expand the export of printed fabric and end products, with particular efforts going to development of clothing, to organizing the production and supply of clothing

materials, to improving product design, and to steady promotion of new styles and new varieties. Second is development of highly finished products, making gains by providing quality, emphasizing woollens, printed fabrics, knitwear, and the quality of clothing, increasing the certification rate for export products, developing China's own distinct hot-selling items, and gradually developing from low quality to intermediate and high quality. Third is designation of a number of key export enterprises. Fourth is continuing to pay attention to technical transformation and not turn out run-of-the-mill goods. Fifth is further upgrading of enterprises. Sixth is development of lateral economic linkups.

9432

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## ANALYSIS OF FACTORS INVOLVED IN IMPROVING INVESTMENT CLIMATE

Beijing GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL] in Chinese No 1,  
Jan 87 pp 8-13, 7

[Article by Xie Min [6200 1488] of the Foreign Economic Relations and Trade University: "On Improving the Investment Climate--A Comprehensive Factor Influencing the Absorption of Direct Foreign Investment"]

[Excerpts] II. An Analysis of Unfavorable Aspects in the Investment Climate in China

Since China has implemented the "open door policy and the policy of enlivening the domestic economy," every political, economic and cultural undertaking throughout the country has undergone comprehensive development. This has provided an excellent basic climate for absorbing direct foreign investment and has led to the growth of various forms of direct foreign investment in China, such as joint ventures, contractual joint ventures, and cooperative production. However, due to the influence of various factors, some problems still exist in the process of absorbing direct foreign investment in China. They are primarily manifested in the following areas:

1. Few projects have been successfully negotiated by Chinese and foreign parties; many have fizzled out. Take for instance the Shanghai region which has a relatively good investment climate. In 1985 the number of projects which failed comprised over 70 percent of all projects negotiated. This gives some idea of the high failure rate.
2. There have been few large projects involving direct foreign investment and many small projects. In 1984, for example, China signed 2,166 direct investment contracts (agreements) with foreign businesses and each project involved, on the average, investments of \$1,327,300. Investments in industrial production projects in particular have not been great. In 1984, of those joint venture projects which received government approval, 57.9 percent involved investments by foreign businesses of under \$500,000.
3. There have been few industrial production projects and many investments relating to daily services. In 1984, of the joint ventures which received government approval, 35 percent of investments by foreign businesses went into industrial production projects. Again using Shanghai as an example, until

1985 the total amount of investments in industrial projects only constituted 19.8 percent of total investments by foreign businesses.

4. There have been few technology-intensive projects but many projects involving hotels, office buildings, etc. In 1984 only 38 of the joint-venture projects approved by the government were technology-intensive projects, or 8.64 percent of all projects. Direct foreign investment for these projects only amounted to 11.74 percent of the total amount of investments. In comparison, the investments during that same year in joint-venture projects such as hotels and commercial and office buildings amounted to 42.1 percent of the investments by foreign businesses. In 1985, this problem among joint-venture projects in Shanghai was even more severe. Investments in hotels and office buildings constituted 93 percent of that year's total direct foreign investment. In addition, there have been few investments in projects for mechanical and electrical instruments and many in consumer-oriented projects. This is a widespread phenomenon.

5. Another characteristic of China's absorption of direct foreign investment is the short lifetime of joint ventures. In 1984, the lifetime for most joint venture agreements which received government approval was about 10 years. Only 17.5 percent of all joint-venture projects were for more than 15 years (not including 15 years).

The five problem areas mentioned above reflect the irrational nature of the direction of investments and the distribution of the industrial structure during the process of setting up Sino-foreign joint ventures. How should we handle these problems and what are the reasons for their occurrence? I believe these problems are closely related to China's investment climate. In reality, together they reflect the current state of China's investment climate. Thus, it is necessary to make a comprehensive analysis based on factors in the investment climate.

Government stability is the principal factor affecting the international investment climate. Present-day international investors all give priority to the "security" of foreign investments. Since the 3d Plenum of the 11th CPC Central Committee, the country has been stable and united and the economy has continued to grow. The open door policy has been implemented continuously. Following the establishment of the special economic zones, 14 coastal cities further implemented the open door policy, followed by the Chang Jiang delta, the Zhu Jiang delta and the southern Fujian delta comprised of Xiamen, Zhangzhou, and Quanzhou. Thus it has been demonstrated that China's open door policy is a long-term and unwavering national policy. However, due to the effects of the decade of unrest and the past practice of having very changeable policies, many potential foreign investors, particularly investors from developed countries in Western Europe and North America, do not fully understand the long-term stability of the policies currently in effect in China. They tend to see the stability and continuation of a national policy as connected to certain leaders of that country. Thus even more investors have adopted a wait-and-see attitude. This inevitably affects foreign investors' choice of investment climate and their policy decisions regarding the amount to invest in China and the lifetime of joint ventures. At present there are

few large joint ventures in China and many more small projects. Moreover, the typically short lifetimes of joint ventures reflect the wish of foreign investors to invest little, see results quickly, and recover principal and interest as soon as possible.

Economic growth and success are major factors influencing the investment climate. Between 1981 and 1985 the GNP showed an average annual growth rate of 10 percent and the GVIAO showed an average annual growth rate of 11 percent. This growth rate is higher than that of many countries during the same period. China's economy is flourishing, stable, and continues to expand while the people's income continues to increase. All this provides potential investment opportunities for foreign investors and this, without doubt, is advantageous to improving China's investment climate. However, economic growth is not only affected by the amount of fixed assets put in, it is also influenced by technological advancement and labor productivity. Compared with various newly industrialized developing countries and regions, the quality of production techniques of Chinese workers is generally inferior and labor productivity is quite low. Between 1957 and 1979 the capital-yield ratio (capital coefficient) in China was 4.8 to 5.4 and between 1979 and 1983 it was 4.4. During the period of rapid economic growth in Japan and South Korea, both had a capital coefficient of less than 3. An excessively high capital coefficient and rather low labor productivity have reduced the cost benefits of direct investments of foreign businesses and partially cancelled out the superiority of China's labor force and inexpensive land prices. This has ultimately influenced the increase of the growth rate of the national economy (the inverse ratio of the growth rate of the national economy and the capital coefficient) thereby reducing the potential opportunities for direct investment in China by foreign business. This is a negative factor in China's investment climate.

The factor in the investment climate with the greatest power to attract investors is marketing opportunity. China is a large market of 1 billion people. Along with increases in the national income, in the people's purchasing power and in total savings deposits, the capacity of China's market has become larger. However, from the point of view of international investments, the size of the markets can only influence the quantity of foreign investments while the openness of the market is the precondition for attracting direct foreign investments. It is inconceivable that a closed off domestic market can attract large amounts of foreign investments. Although China's international market is large there are still differences in the degree and levels of openness. There is a high degree of openness toward foreign investment in tourism and commerce but in manufacturing industries, particularly industries which manufacture mechanical and electrical instruments, there is little openness to foreign investment. This is feasible in the early stages of absorbing direct foreign investments of foreign businesses, it may be advantageous to achieving a balance of foreign exchange. In the long-term, however, a market with this degree of openness would be disadvantageous to the improvement of the industrial investment structure. It would cause the volume of foreign investments in manufacturing industries to become too small and we would be unable to attain the ultimate goals upon which we have pinned our hopes--of utilizing foreign capital to develop industry and of improving the standard of production technology. Moreover, the standard of production

technology will not improve, our export production capability will inevitably be restricted and there will be no way to ensure a long-term balance of foreign exchange.

The amount of foreign investments drawn in by a country's market is determined by the foreign exchange control policies of that country. China has implemented strict foreign exchange control policies. The exchange of currency has been restricted and there are few adjusted control methods. This has given rise to the contradiction of the imbalance of foreign exchange common in the joint ventures characteristic of China. There are no sources for foreign exchange which is needed for production in the joint ventures and there is no way to convert RMB from domestic sales of goods into foreign exchange. These two factors have greatly reduced the capacity of the market to attract foreign investors and have encouraged foreign businesses to invest large amounts of capital in tourism (hotels), commerce, and taxi services in which it is easier to maintain a balance of foreign exchange.

Strengthening and improving the legal system are significant measures for safeguarding the interests of international investors. They are also important in improving the investment climate. Between 1979 and 1985 China established a complete and detailed set of laws (145 pages in all) governing foreign economic relations and trade. They have played a positive role in improving China's investment climate. Any law, however, must be carried out by some individual and the quality of management personnel often determines the extent to which foreign economic laws are implemented. At present there are two problems in China regarding the control of the utilization of foreign capital. First of all laws are not obeyed and there is excessive administrative interference. Some departments in charge treat Sino-foreign joint ventures as foreign enterprises. They have not only not provided raw and auxiliary materials to joint ventures on favorable terms when the foreign businesses were willing to purchase domestic raw materials, thereby violating the "Joint Venture Law," on the contrary, they have exacted irrationally high prices from joint ventures. As a result, production costs have increased hugely so that foreign businesses have felt compelled to import from abroad. Another example is the fact that, according to the stipulations of the "Joint Venture Law," enterprises themselves have the right to determine the ex-factory price of goods. They need only report to the concerned department. However, some management departments insist that, according to convention, they must first get approval and then report. Foreign investors frequently do not understand problems such as these. Second, there are numerous levels of management, procedures are complex and efficiency is low. Most foreign investors do not fear difficulties in commercial negotiations but rather fear the complexity of examination and reporting procedures. They often shrink back when confronted with the complex examination and reporting process.

In addition, China has not yet established a capital fund market, a foreign exchange market and a labor market, all of which are necessary in a commodity economy. It is difficult for joint ventures to raise capital, to borrow foreign exchange and to freely select and hire workers. Consequently, at the present time foreign investors in China must feel that it is very inconvenient to do business in such an investment climate where the commodity economy mechanism is still not sound. This has affected their confidence in investing.



### III. Comprehensive Regulation, Improving the Investment Climate Through Various Channels

Improving the investment climate is a constantly evolving process, we cannot reach the goal in just one step. During this process it is necessary for us to do much work in a conscientious manner. There are many disadvantageous factors in China's investment climate but it is clear which direction to take to improve it. Thus, we should reform these various factors influencing the climate according to the demands inherent in international investment activities so that they are advantageous to absorbing direct foreign investments.

First, it is necessary to further reinforce China's fine political climate, to improve policy propaganda work for absorbing direct foreign investments and to further implement the open door policy so that foreign investors truly feel that China's open door policy is "not meant to restrain but rather to open up." They must realize that it is a long-range and stable national policy. Following the implementation of reforms in the urban and rural economic systems, China is just now preparing reforms in the political system. This will surely be advantageous to improving the political climate which will then increase the confidence of foreign businesses in investing in China.

Second, in order to even more effectively absorb direct foreign investments, it is necessary to strengthen the legal system and use legal means to set up the open door policy so as to ensure the security of the interests of international investors. In addition, it is necessary to formulate related laws, regulations, and detailed rules to further clarify certain issues in joint venture management. Take the following problems for example: evaluating Chinese investments and the invisible assets of foreign businesses; the supply and pricing of raw and auxiliary materials; the raising of capital in joint ventures; investment guarantees; and handling labor contradictions and the role of labor unions.

Third, it is necessary to streamline intermediate management, reduce administrative interference in joint-venture activities as much as possible and increase work efficiency in absorbing foreign capital. The responsible management departments for concerned joint ventures should strictly handle matters according to laws and regulations and respect the legal status, rights, and interests of joint ventures so that joint ventures can operate in a relaxed and open business environment.

Fourth, it is necessary to gradually establish a uniquely Chinese capital fund market, a regulated foreign exchange market, and a labor market so as to form a commodity economy climate which is sound, suitable for the existence and development of joint ventures, and vital. China is just now testing and implementing the enterprise labor contract system, the asset management system of responsibility and the enterprise share system. Shanghai has already set up the country's first stock market. All this will no doubt benefit China's investment climate and enable joint ventures to utilize even more measures.

Fifth, the implementation of various preferential measures means that different kinds of preferential treatment are given to the direct foreign investments of different businesses and different regions. A high degree of preferential treatment should be given to investments in projects involving high, refined, or sophisticated technology, projects which contribute to increasing exports of manufactured goods and projects in the interior and outlying areas which exploit investments. Relatively little preferential treatment should be given to investments in tourism, commerce, hotels, office buildings, and other nonproductive projects as well as to projects with average investment benefits. These differences in preferential treatment will contribute to improving the investment structure and will guide investments toward businesses involved in industrial production and toward technology-intensive fields. This will ultimately reduce the disparities among the goals of the utilization of foreign capital in China and the goals of investments by foreign businesses.

In addition, it is necessary to carry out preferential measures toward foreign investments. We cannot blindly stress "tax exemptions" nor can we presume to change foreign tax laws during negotiations or project examination and approval. We cannot expand the scope of preferential treatment in taxation, arbitrarily reduce or waive taxes, or extend the period of tax exemption, etc. From the experiences of countries in Asia and Latin America in utilizing foreign capital, it can be seen that the efficacy of relying solely on "tax exemptions" is not great, on the contrary, it leads to losses of tax revenue. Implementing preferential measures requires that we provide preferential taxation and, at the same time, supplement this by opening up part of the domestic market, increasing the proportion of products for sale domestically, providing favorable terms of credit, having tax refunds for exports, reducing land-leasing fees, waiving local taxes, increasing the rate of depreciation, and other preferential measures. Only in this way can China's investment climate be even more competitive and have greater ability to attract investments.

Sixth, an important factor in improving the investment climate is increasing labor productivity and the quality of workers and management personnel. Production and control in joint ventures is generally more complex than in other enterprises. Due to cultural differences among Chinese and foreign management personnel, differences in the management philosophies followed, and differences in management methods, there are many difficulties for both sides in cooperative management. Thus, it is essential to train workers and cadres in a planned and purposeful manner using many channels so that they form a corps of technical workers, advanced skilled workers, and superior management personnel capable of conforming to the need for absorbing foreign investments.

Finally, improving infrastructure remains a key factor in improving our investment climate. In this regard it is necessary to stress the two priorities. One is that of the factors involved in improving the investment climate, it is first necessary to improve the infrastructure. Only by successfully "preparing the infrastructure for construction projects" can foreign investments flow in and be secure. The other is that in the construction of China's infrastructure, it is first necessary to successfully construct airports,

ports, communication and transportation facilities, power, water, and gas supplies, information facilities, the municipal governments, and services in special economic zones, open coastal cities, and economic development zones. The infrastructure of these areas should be built so as to support local production and technological capabilities as soon as possible, thereby creating an internationally competitive and attractive investment climate.

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PLA MODERNIZATION, REGULARIZATION ANALYZED

Taipei CHUNGKUO TALU [MAINLAND CHINA MONTHLY] in Chinese No 233, 15 Jan 87  
pp 29-34

[Article by Kan T'ang [3927 2768]: "Analysis of the Current Situation in the Communist Army's 'Modernization and Regularization'"]

[Text] Foreword

In the Chinese communist armed forces, there has always existed a so-called "struggle between two military lines." They include:

A. Based on his army-building thinking and his tactics in political struggle, Mao Zedong insisted on "carrying out 'modernization' under the premise of 'revolutionization.'"

B. Based on his suffering a disastrous defeat at the hands of the allied army during the Korean War, Peng Dehuai advocated that "modernization" be the long-range army-building policy.

C. To pander to Mao Zedong's wishes, as well as out of his own experiences in operations of armed rebellion, Lin Biao raised the army-building slogan of "revolutionization and combatization."

The above-mentioned "six transformations" were merged into the "four modernizations" of "revolutionization, modernization, regularization, combatization"; in reality, the struggle between two military lines is the struggle between "revolutionization" and "modernization."

On 19 September 1981, when reviewing a large exercise by the communist army in North China, Deng Xiaoping made a speech entitled "Build a Powerful Modernized, Regularized Revolutionary Armed Forces." ("Selected Works of Deng Xiaoping," pp 349-350) Afterward, under the leadership of the Military Commission of the CPC Central Committee, Mao Zedong's "revolutionization" was pushed aside and Peng Dehuai's "modernization and regularization" were comprehensively launched. This article will be a brief analysis of the situation with regard to the progress of the communist army's "two transformations" in recent years.



## National Defense Theory and Its Military Form

In the communist army's "modernization and regularization," first of all a new national defense theory was established, a theory that broke from the old form of the armed forces. On 4 June 1985, at an enlarged session of the Military Commission, Deng Xiaoping pointed out: "It has been decided that national defense construction will be switched from the brink-of-war posture for 'fighting an early, large-scale, nuclear war' to the track of construction in a period of peace." (JIEFANGJUN BAO, 5 June 1985) Making this instruction the guiding ideology for the "two transformations," the communist army took the following measures:

A. National Defense Theory: the Chinese communists tried to find a new national defense theory as the basis for the "two transformations." In March 1986, the General Staff Department called together in Peiping more than 1,000 responsible persons from the three general departments, the National Defense Science, Technology, and Industry Commission, the National Defense University, all service arms, and the Beijing Military Region; and a series of lectures on 10 topics of "national defense development strategy" was presented, the subjects being:

1. Analysis of the trends of development in the world situation and the theoretical basis for the Military Commission's strategic decision to switch to construction in a "period of peace."
2. Strategic studies and modern national defense.
3. State economic construction strategy and national defense modernization.
4. The principal countries of the world and their national defense development strategies and policies in the period of peace.
5. Looking at the strategies of America and the Soviet Union in their contention in outer space from the angle of the "Star Wars plan."
6. The military strategy and national policy of China in ancient times.
7. Strategy and policy for the development of weapons and equipment.
8. The trends of development and the theory of the armed forces' system of organization and establishment.
9. Looking at national defense development strategy from the aspect of national defense economic studies.
10. The effects of military and political geography on national development and national defense. (Hong Kong WEN HUI PAO, 3 March 1986)

From the above one can see the Chinese communists' new national defense theory, namely, the general outline of the "three facings": "facing modernization," "facing the world," and "facing the future."

B. The form of the armed forces: the Chinese communists' original military theory, quality of officers and men, as well as management and structure did not meet the demands of the "two transformations." In recent years, through many-sided studies and attempts to find out things, they have made the following five changes in the form: (Hong Kong WEN HUI PAO, 28 July 1986)

1. Military theory has been changed from the "closed type" to the "open type." Mao Zedong military thought, which controlled the communist army's military theory for several decades, went through a process of developing what was useful and discarding what was not. In May last year, the Military Academy set up the Strategic Studies Institute, which invited foreign scholars and experts of nonmilitary systems to be researchers and carry out new military academic research.

2. The quality of military officers has been changed from the "type that emerges by itself" to the "type that is trained in colleges and schools." The source of the communist army's officers originally was those who had been "locally born and bred" in the companies. The new military service law stipulates that officers who fill vacancies during peacetime active service must have been trained in colleges and schools.

3. The quality of enlisted men has been changed from the "physical strength type" to the "mental strength type." In the past, for the communist army's enlisted men, attention was paid only to the "five big arts": bayonet fighting, handgrenade throwing, firing, blowing up, and building earthworks. Now stress is placed on their knowledge of the natural sciences and on their general knowledge of modernized military affairs.

4. Armed forces management has been changed from the "empirical type" to the "scientific type." In the past, the communist army's management only depended on experience, and it stressed tradition. Now attention is paid to the application of systems theory, information theory, and cybernetics, as well as to the application of decisionmaking studies, operations research, psychology, pedagogy, social studies, physiology, and simulation experiments.

5. The man-machine structure has been changed from the "overstaffed type" to the "crack type." Formerly, the proportionate relationship between men and weapons and equipment was overstaffed and unwieldy, slow and rigid. Now stress is put on a streamlined organizational structure, flexible command, excellent equipment, and rapid reaction.

#### Education and Training

In recent years, in cadre education and troop training in the communist army, there has been a comprehensive reform for the development of the "two transformations."

A. Cadre Education: Originally the communist army adopted the method of "large study classes" to train cadres in rotation. In June 1986, under the requirements of the "three facing's" the "Central Military Commission" carried out a comprehensive organizational merger and readjustment of the communist army's colleges and schools. The present situation is as follows:

1. Noncommissioned Officer Schools: The Navy and Air Force have begun to establish noncommissioned officer schools in Dalian, and in more than 10 Army officer schools, classes for noncommissioned officers are run. (XINHUA News Agency, 27 February 1986)

2. Command colleges and schools are divided into three levels:

a. Primary Command Colleges and Schools: They enroll senior middle school graduates and outstanding squad leaders, and train them to be platoon- and company-level cadres; the emphasis is on basic education in military affairs, politics, and culture.

b. Middle-Level Command Colleges and Schools: They enroll battalion- and regiment-level cadres who have been trained in primary command colleges and schools, and give them advanced, specialized education.

c. Higher Command Colleges and Schools: They enroll cadres at the division level and above who have been trained in middle-level command colleges and schools, and give them high-level comprehensive education. (RENMIN RIBAO, overseas edition, 11 June 1986)

3. Technical colleges and schools, which include military medical, electronic engineering, engineer project, chemical defense, and communications colleges, are divided into the following five levels:

a. Polytechnic school classes: 2 years.

b. College classes: 3 years.

c. University undergraduate courses: 4 years.

d. For the first time, in 1978, 11 master's degree graduate students were enrolled; this year the number of such students enrolled increased 11-fold.

e. Doctorate graduate students were enrolled for the first time in 1981.

As of now, more than 1,200 graduate students have got their degrees, and about 2,000 of them are still in school.

4. National Defense University:

a. Its establishment was announced on 30 January 1985; it was formally established on 15 January 1986, and term began on 1 September of that year.

b. It is a merger of the military, political, and logistics academies. Its first president was Zhang Zhen [1728 2182], and its first political commissar Li Desheng [2621 1795 3932]. (RENMIN RIBAO, 19 December 1985)

c. It has the following seven departments (research institutes):

(1) National Defense Studies Department--It stresses the study of issues concerning national defense construction. Three-fourths of the students are high-level military cadres, and one-fourth are cadres at the central level and the provincial or city department or bureau level and above. This department's first group of students numbered 24. At the university they studied "the international strategic structure and the situation in the security of the Asian and Pacific region." After a short period of inspection abroad, they completed their studies on 9 December.

(2) Advanced Studies Department--This department is for leading cadres at the group army level and above.

(3) Basics Department--This department is for staff officers at the group army level and above.

(4) Graduate School.

(5) Strategic Research Institute.

(6) Marxism Research Institute.

(7) Armed Forces Construction Research Institute.

d. Basic Missions: To train command cadres of the Army, Navy, and Air Force at the army level and above, high-level staff personnel, high-level theoretical researchers, and high-level leading cadres of the relevant "government" departments; and to engage in research on problems of strategy and national defense modernization.

e. The first class of enrolled students consisted of a little more than 500 persons in the National Defense Studies Department, Advanced Studies Department, and Basics Department. Each one of them had to write a thesis with original views that provided reference materials for policy decisions by leadership organizations, after which as a collective they went abroad on a tour of investigation. (XINHUA News Agency, 28 August and 1 September 1986)

B. Troop Training: Following the reform of the communist army's establishment and system of organization, there has been a tendency to make training scientific, modern, and diversified, and emphasis has been put on special-type training, directional training, and speciality training. Recently, the important developments in the communist army's training have been as follows:

1. Common items in Army, Navy, and Air Force training:

a. In each branch of the service, there has been two-sided training by a single arm: for example, tank versus tank, destroyer versus destroyer, and interceptor aircraft versus interceptor aircraft.



b. The combined arms training of all arms in a branch of the service has developed into coordinated operations training of all branches of the service.

c. In combat training, a lot of laser and electronic simulation equipment has been used. When a weapon is fired, a laser or electronic wave makes the true sound of a bullet or shell, and the personnel or target hit, because they have receiving devices, immediately emit a smokescreen or sound, so that the degree of casualties or damage caused can be instantaneously determined. (XINHUA News Agency, 18 October 1985)

2. The Army recently set up in the Nanjing Military Region a "combined arms tactics training center." It is said that the distinguishing features of this center are that "the directing facilities are electronic, the site is set up like a battlefield, the target display is automated, and the organizational functions are diversified." (XINHUA News Agency, 22 April 1986)

3. The Air Force has set up a "new flyer training division." From now on all flyers who have graduated from flight school must first take concentrated training in this division before being assigned to a combat unit. (XINHUA News Agency, 3 January 1987)

#### The Communist Army's Establishment

The communist army began to streamline and reorganize at the beginning of 1985, and by the end of 1986 the reduction of 1 million men was scheduled to be completed. In reality, the Chinese communists' so-called reduction of 1 million men was a reduction of cadres not troops, a reduction of the old not the young and sturdy, a reduction of quantity not quality, and a reduction of the different not the same. Therefore, the communist army's overall fighting strength, after the streamlining and reorganization, was not only not weakened in the slightest, but rather was greatly enhanced.

During the course of the streamlining and reorganization, the military strength of the Navy and Air Force probably was reduced 20 percent each, but the development of their weapons and equipment was accelerated and became stronger with each passing day. What is now most noteworthy is the trends in the development of the Army's equipment, which in general are as follows:

A. In June 1986, the Chinese communists held an enlarged session of their Military Commission, which decided to dissolve the Wuhan, Fuzhou, Kunming, and Urumqi military regions, four of the large military regions, and to retain only seven military regions, namely, Beijing, Shenyang, Ji'nan, Nanjing, Guangzhou, Chengdu, and Lanzhou. At the same time it decided to set up forward command posts in Fuzhou, Kunming, and Urumqi to monitor and direct military actions against the armed forces of the Republic of China, the Vietnamese communists, and Soviet Russia.

B. After the communist army staged a large exercise in North China in the fall of 1981, it started to rebuild its original field armies into "mechanized group armies."

C. The 38th Group Army of the Beijing Military Region was made responsible for the experimental point work on the establishment and equipment of each group army, and it completed its work in August 1986. In general, the situation in this respect is as follows:

1. Unit Composition: infantry divisions (3), armored brigade (1), artillery brigade (1), antiaircraft artillery brigade (1), and 1 regiment (battalion) each of signal communications, chemical defense, engineer, air, and electronic countermeasures troops. The military strength of the group army is about 60,000 men. (Japan's SANKEI SHIMBUN, 8 November 1986)

2. Specialities and Skills: There are more than 370 specialities, including laser, radar, electronic computer, and meteorology, and more than 1,200 skills. Of every two enlisted men, one is a specialist; of every five enlisted men, only one is an infantryman.

3. Mobility: On the average, for every six enlisted men there is one motor vehicle, armored vehicle, or tank. The mobility rate has increased by four-to sixfold over what it was in the past.

4. Operational Missions: a) carry out tactical operational missions; and b) carry out campaign operations either in the higher level's establishment or independently. (XINHUA News Agency, 23 August 1986)

5. After the 38th Group Army was reorganized, in September 1986 it staged a 4-day exercise in North China. According to reports, "in organizing and commanding this exercise, the decisions were basically correct, troops were used rationally, and coordination was effected properly." (XINHUA News Agency, 20 November 1986)

#### Weapons Development

In recent years, besides developing weapons and equipment for its own use, the communist army has organized the "Northern Industrial Corp," which promotes a large amount of sales to Third World countries, and these sales each year total \$2 billion. In general, the situation in weapon development is as follows:

##### A. Army

1. The main light weapon is the improved AK-47 automatic rifle. A new-type automatic rifle has recently been developed. It possesses the merits of a rifle's accuracy and a machinegun's speed; it can fire antitank rifle grenades.

2. In artillery, a special-track rocket gun and a multibarrel rocket gun are being vigorously developed; in tanks, the T-69 is the main battle tank, and the T-72 tank could be under development.

3. There is basically a complete set of chemical defense equipment, which can be self-produced and which has been initially modernized. It is said that more than 4,000 chemical defense cadres have been trained. (XINHUA News Agency, 1 August 1986)

4. The Army's air units were recently equipped with a light, multipurpose pilotless reconnaissance plane, which increases the Army's aerial reconnaissance capability.

#### B. Navy:

1. The weapons and equipment of every arm, including surface vessel, submarine, shore defense troops, and marines, are all being improved.

2. There are three nuclear-powered submarines, one of which completed a long voyage at the end of 1986. (XINHUA News Agency, 31 December 1986) The other two were recently completed, and it was planned for them to enter the order of battle before the end of 1986. Three others are being built, and six are in the planning stage.

3. Preparations are underway to build a medium aircraft carrier.

#### C. Air Force

1. The weapons and equipment of the arms of the Air Force, including the air arm as the main part and the surface-to-air missile, antiaircraft artillery, airborne, and radar forces, are all being improved.

2. In recent years there has been a vigorous development of the Jian-8 fighter. When the "National Defense Technology Exhibition" opened on 4 November 1986 in Peiping, the Jian-8 fighter was exhibited. (XINHUA News Agency, 4 November 1986) On 5 November 1986, a \$550 million agreement was signed with America for the purchase of U.S.-made advanced radar and electronic equipment to enhance the Jian-8's navigational and operational capabilities.

D. Strategic Rocket Force: It has six armies with a total military strength of about 60,000 men. The general situation in the nuclear military strength is shown in the following table. ("The Military Balance, 1985-86," compiled and printed by the International Strategic Research Institute, London, England)

Means of Delivery	Type	Number	Range (m)
aircraft	B-6 (Hong)	90	6100
ground-launched missile	CSS-1	50	1800
	CSS-2	65185	2500
	CSS-3	4	7000
	CSS-4	21	13000

## Comprehensive Analysis

A. After Deng Xiaoping succeeded in taking power in 1978, he began to promote the "modernization and regularization" of the communist army. In the 8 years since then, in developing the "two transformations" the communist army has obtained the following successes:

1. In the domain of military thought, it has changed the past unrestrained, closed, local methods of thought, and has sought to make modern, world scientific arguments the theoretical basis for its "two transformations."

2. In the form of the armed forces, the quality of the officers and men has been improved, and some of them are better educated and professionally more competent. In the armed forces' management and structure, some things are more scientific and excellent.

3. In the education of the communist army's cadres, there is an orderly progression from noncommissioned officer schools, command colleges and schools, and technical colleges and schools to the National Defense University, and the levels are clearly demarcated. This is a good way of training military cadres. Putting graduate students working for master's or doctor's degrees in technical colleges and schools was pioneering work in the army.

4. Coordination training by all branches and arms of the service has been initiated in the communist army's troop training, and this development in training is at its highest level since the large exercise in North China. The "Combined Arms Tactical Training Center" and the "New Flyers Training Division" could produce fairly good results as they permeate training in bases.

5. In two-sided exercises, the replacement of the traditional live ammunition of the past with laser and electronic simulation equipment greatly reduces the cost of these, and in the umpiring of them saves time and makes the umpiring more accurate.

6. The communist army's dissolving of four big military regions reduces the command and coordination strata, making operational command fairly flexible. The rebuilding of group armies has markedly increased firepower, shock power, mobility, protective power, and rapid reaction capability.

7. The rapid maturation of the weapons and equipment of the communist army's Army, Navy, and Air Force has had a decisive effect on its "modernization." The fighting power of its Navy and Air Force is constantly growing, and, in the control of the sea and air in the Taiwan Strait, they could pose a major threat to us.



## B. Limitations and Weaknesses of the Communist Army's "Two Transformations"

1. For a long time the cadres of the communist army, especially the leading cadres, were influenced by the Mao Zedong military thought of "revolutionization," and this influence is deeply rooted in them. They fundamentally reject and resist Deng Xiaoping's practice of "modernization."

2. Most of the high-level cadres in the communist army came from the common people, and they have neither learning nor skill. Even more of the middle- and low-level cadres have not had a good education, and their knowledge is meager. Formerly they could get by by shouting slogans and acting rashly. Once they are called upon to engage in "modernization," which depends on knowledge and specialties, they are unable to adapt.

3. In the form of communist army units, to very rapidly change from the long-standing five types--"closed, emerge of itself, physical strength, experience, and overstaffing"--to the 5 types "open, college and school, mental strength, science, and crack units"--is in theory possible, but in practice is not that simple.

4. The communist army has demanded that primary-level cadres graduate from military colleges or schools. However, from 1982, when enrollment began, to 1986, when the first groups graduated, there is still now a state of "temporary shortage." To reach this goal will take at least 10 years or more.

5. The foundation of armed forces training is the basic level, and the main part to be trained is enlisted men. To deal with the question of the enlisted men's seeking a livelihood after demobilization, in the past several years the communist army has gone all out to train "dual-purpose talents for the army and the locality." Every enlisted man is busily studying 2 of 10 trades, which include electric appliance repair, tailoring, barbering, and cooking. Military training is "done perfunctorily." This kind of top-heavy training produces no results to speak of.

6. In Deng Xiaoping's reduction of 1 million men in the army, those who were reduced were all cadres and were all the "three types of people" in the Deng faction's eyes. With boundless resentment, they said: "We're too young to retire, we can't remain in the units, and the localities don't want us." Thus, morale in the army dropped and discipline was undermined. The result was that by the end of 1986 only 410,000 men had been cut.

7. The Chinese communists rebuilt the field armies as mechanized group armies. Although this establishment has its advantages, it has three problems worth studying:

a. The imaginary enemy was the main basis for the armed forces' establishment. The order of the Chinese communists' imaginary enemies are the armed forces of the Republic of China, Soviet Russia, and America. Will the group army establishment be suitable for any one of these imaginary enemies? This is a big question.

b. In strategy and tactics the communist army stresses "active defense" and "people's war." A group army has an establishment of a highly offensive type. If its strategy and tactics can only be suited to "active defense" or matched to "people's war," how will it fight in other situations?

c. Is the group army establishment a fixed-type or experimental establishment? A long period of testing is still needed before a final decision can be made.

8. The communist army's weapons and equipment, in both quality and quantity, are under active research and development. Even if every year it makes \$2 billion in foreign exchange from weapon sales, this amount still does not make up for the enormous manufacturing costs. For a poor, backward area in which the national income per capita per year is only \$230, to fight recklessly with no regard for the consequences to be a "powerful country" in weapons and equipment, can only lead in the end to "draining the pond to get all the fish" and making the people poorer and their strength exhausted. The Chinese communists' military budgets for the last 7 years are shown on the following table:

Year	1979	1980	1981	1982	1983	1984	1985
military budget (unit: 1 million yuan in RMB]	21,370	19,380	1,687	17,640	17,710	17,870	19,140
percentage of total budget	17.50	15.89	15.60	15.30	13.70	11.93	10.50

Remarks: 1. Over these years the military budget's percentage of total budget has dropped. This is because of price fluctuations and the fact that as the total budget increases, the military budget decreases.

2. The military budgets listed on the table represent for the most part "clothing and food" and other personnel costs. As for the costs of nuclear weapons, spaceflight technology, and even the Navy's vessels and the Air Force's aircraft, these costs are kept secret by putting them in other budgets.

9. With the mind set of "we don't want trousers but we do want nuclear weapons," the Chinese do not stint at spending astronomical figures in financial resources on nuclear weapons, and are now doing so. They self-slander themselves as the "third big nuclear country." However, they can't use these nuclear weapons against other countries, and they do not dare to use them against Soviet Russia or the United States. To set up nuclear weapons with countless manpower, material resources, and financial resources not only

cannot intimidate anyone, but also could make a nuclear arsenal that could cause one's own destruction!

#### Conclusion

A. In the Chinese communists' army-building policy, there has been the "struggle between the two military lines" of "revolutionization" and "modernization." Therefore, in the "modernization and regularization" carried out by the communist army, although there is one difficulty after another, in the foreseeable future, at least before Deng Xiaoping's death, they will still have their market and will still have their development.

B. In the "Sayings of Confucius," Tuan-mu Tz'u inquired about the essentials of good government. "They are these: sufficient food, sufficient armament, and the confidence of the people." "Suppose a necessity arose and, despite oneself, it was impossible to have all three. Which should be dispensed with first?" "Armament" "And if one of the remaining two had to be dispensed with?" "Food. Everyone has always been subject to death, but without the confidence of the people there would be no government." The Chinese communist regime is acting counter to this. No matter whether it is "revolutionization" or "modernization," they are both cases of "sufficient armament," and "dispensing with food," and "no confidence of the people." In the end, it is a law of history that those who wantonly engage in military aggression and warmongering will certainly be killed.

9727

CSO: 4005/378

PLA SCIENTISTS PRODUCE COMPUTER WAR GAME

OWO40742 Beijing XINHUA in English 0727 GMT 4 Apr 87

[Text] Beijing, 4 April (XINHUA)--On a television screen, thousands of fighters are at each other's throats in a fierce war involving missiles. This is a war game operated by electronic simulation in realistic scenarios in a military research institute.

After six years of laboratory work, the Military Operations Research and Analysis Institute of the Chinese People's Liberation Army (PLA) has set up this computer war game to analyse, predict and evaluate military strategy, operations and tactics in future wars, according to today's CHINA DAILY.

Sun Bolin, chief of the institute, said his institute was applying the most advanced science and technology to military skills in an effort to change the mode of war in the face of the fast-developing defenses across the world.

"Use of simulation techniques saves time and money compared to traditional field exercises, thus highly welcome at a time when the defence budget is limited," he said.

Attached to the Academy of Military Sciences, the institute has an elite team of specialists engaged in the study of military engineering with the aid of computers.

"The purpose of our research is to provide advice and support for the solution of existing problems in army-building and to lay the ground work for command automation," he said. The command automation system is a man-computer system designed to organize and direct war operations, he said, adding that the combat models will help commanders to select the best operational plan.

He quoted the example of the "Great Wall 1" system which simulates a battalion-size battle. The first of its kind, the system is capable of assessing fighting abilities, comparing military designs and evaluating the effectiveness of weapons.

The "Quick Model 3" shows a division's operation. The model which records combat marks was set up at the request of the Shenyang military command, providing an arena for 'A' and 'B' armies to stage manoeuvres, he said.



Fan Hao, an officer in the academy's information department, said that the simulation project was made easier to operate by supporting mechanisms including the country's first British-Chinese translation machine.

The translation machine, code-named "Scientific Translation 1", is capable of giving automatic translations from English to Chinese without any pre-editing, converting some 3,000 words per hour, Fan said. He said the machine, to be at first used by the military, would soon be commercialized as it had reached the world advanced level.

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CS0: 4000/097

CHINA DAILY ON NATIONAL DEFENSE SYMPOSIUM

HK300450 Beijing CHINA DAILY in English 30 Mar 87 p 4

[From "What They Are Saying" column: "Civilian Use of Army Research"]

[Text] More technology for national defence should be transferred to civilian use, experts urged at a symposium on the development strategy of the national defence industry which was held recently in Beijing.

The symposium, organized by the Commission of Science, technology and Industry for National Defense, was attended by Zhang Ziping, Minister of National Defence, Qian Xuesen, Chairman of the China Science and Technology Association, economists Ma Bin, Wu Jiapi and Luo Gengmo and more than 100 military officers and experts. Excerpts from its conclusions follow:

The transfer of military technology to civilian use has been accelerating in recent years. About 20,000 items were transferred in 1985, compared to 400 in 1983, involving 1 billion yuan. The profits will be 7 to 10 billion yuan, multiplying the funds for national defence research.

However, this is only a small part of the number of technical items which could be transferred. Most of the high-tech know-how is still locked away in safes.

Scientific research and production for national defence used to be isolated from the outside world due to the excessive emphasis on an independent and all-inclusive complex and on secrecy.

As a result, many basic facilities, research personnel and technological achievements for the military lay idle, while those for civilian use were unobtainable, difficult to get or had to be imported. The waste has been tremendous.

Mingling the defence industry with the national economy might be a solution to such an irrational phenomenon.

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BRIEFS

**HIGH SECURITY AREAS PHOTOS**—A Hong Kong publishing company is going up in the world in more ways than one after landing a high flying joint venture with China. Starting next month, four of the world's top aerial photographers will cover the length and breadth of the mainland and shoot more than 100,000 pictures from balloons, helicopters, ultralights and light aircraft for a book called OVER CHINA. But what makes the \$5.9 million project even more remarkable is that China has asked the publishers, Intercontinental Publishing Corporation (IPC), to include some of its most sensitive, high security areas on its list of locations, areas like the guided missile launching site at Xichang, hitherto strictly off limits to outsiders. For the most part, the photographers, who have each been assigned a particular area to cover, will be in aircraft piloted by the People's Liberation Army. IPC's joint venture, as with CHINA, THE LONG MARCH, is with the Great Wall Publishing Company, a branch of the Army. [By Barry Grindrod] [Excerpts] [Hong Kong SOUTH CHINA MORNING POST in English 7 May 87 p 3 HK] /12913

**MILITARY PLANES WIN AWARD**—Beijing, 20 March (XINHUA)—Three military planes, two airplane engines and a missile have won the "good quality product" designation for 1986 from the Aviation Industry Ministry, a ministry official announced today. These are the "Jian-8" all-weather fighter plane manufactured in Shenyang, the "Jian-7M" fighter plane manufactured in Chengdu, the "Qiang-5" attack plane body manufactured in Nanchang, the turbojet-7a engine produced in Shenyang, as well as the turbopropeller-6 engine and "Shangyou-1-A" missile. This was the first time in Chinese aviation history that complete planes have been recommended as good quality products, the official said. [Text] [Beijing XINHUA in English 1541 GMT 20 Mar 87 OW] /12913

**HONG XUEZHI MEETS U.S. DELEGATION**—Beijing, 6 May (XINHUA)—Hong Xuezhi, director of the general logistics department of the Chinese People's Liberation Army, met here today a U.S. military medical delegation headed by William Mayer, assistant secretary of defense for health affairs. After the meeting Hong held a banquet in honor of the American guests. The guests are scheduled to visit Xian, Chongqing and Shanghai. [Text] [Beijing XINHUA in English 1423 GMT 6 May 87 OW] /12913

CSO: 4000/097

## JIANGSU COMBATS BOURGEOIS LIBERALIZATION

Nanjing XINHUA RIBAO in Chinese 6 Jan 87 p 1

[Article: "Provincial Party Committee Convenes Conference of Responsible Party Cadres"]

[Excerpts] At the meeting for party cadres at the provincial department and bureau levels and above and responsible cadres of Nanjing's universities and colleges held on the afternoon of 5 January, the Jiangsu provincial party committee demanded that the vast numbers of party cadres uphold the four basic principles, firmly resist bourgeois liberalization, consolidate and expand the excellent situation of stability and unity, and ensure the sound development of reform and the policy of opening up to the world.

Comrade Han Peixin [7281 1014 0207] gave a speech at the meeting and made plans for study and work. He said: At present we must organize the vast numbers of party cadres to study earnestly the RENMIN RIBAO New Year editorial and the party Central Committee's important instructions since the 3d Plenary Session of the 11th Central Committee on upholding the four basic principles and, by means of study, unify understanding in the following ways: First, fully understand that upholding the four cardinal principles and combating bourgeois liberalization constitute our unswerving policy. Party and league members, especially party cadres, must take a clear stand on this issue. Second, correctly understand the necessity of upholding reform and the open policy as well as the four basic principles. On the scientific and cultural fronts, this means upholding the "double hundred" policy as well as the four basic principles. The four basic principles and reform and the open policy are unified and complement each other. Overlooking either will cause us to deviate from building socialism with Chinese characteristics. The four basic principles are the fundamental guarantee of reform and the open policy. We must, by following firmly this basic guide, distinguish between right and wrong, solve our problems, and resist bourgeois liberalization. Third, fully understand that a political situation of stability and unity is the most important guarantee to reform and the open policy and the key to the success or failure of the socialist modernization program. Everyone must cherish stability and unity. Leaders at all levels, in particular, must take the consolidation and development of stability and unity as the premise in all work. Fourth, fully understand that the four basic principles are the supreme criteria of the party's consensus and the principles of party spirit to be followed by each and every party member. Party members must serve as models in upholding the four basic



principles, and those on the ideological front, in particular, must obey party discipline, defend party principles, and adhere to the correct political orientation. Fifth, in terms of the handful of individuals with ulterior motives, craving nationwide chaos, spreading rumors, confounding black and white, and stirring up trouble, we must take a clear-cut stand to expose them, and punish violators of criminal law according to the law.

6080/9716

CSO: 4005/382

INTELLECTUALS SELECTED AS LABOR MODELS

Zhengzhou HENAN RIBAO in Chinese 28 Dec 86 p 1

[Article by Dong Chengming [5516 0015 2494]: "Intellectuals Selected as Model Workers"]

[Text] Che Deji [6508 1795 1015] and 28 other scientists and educators were granted the title of model workers by the Henan people's government. This is a cause for rejoicing in the intellectual community.

When selecting model workers, people for a long time have always consciously or unconsciously looked for them among comrades covered with grease, dirt and sweat and excluded intellectual, mental laborers. Therefore, while annually model workers on all fronts formed a long list, experts and professors making outstanding contributions were often overlooked.

The party Central Committee long ago removed the label of "stinking ninth category" from intellectuals, and included in its documents such scientific theses as "intellectuals are a part of the working class" and "intellectuals are also workers, but some of our comrades (including some intellectuals themselves) still intentionally or unintentionally reject intellectuals as workers. In the view of these comrades, experts and professors sitting in offices, sheltered from wind and rain, with no calluses on their hands and no sweat on their bodies do not deserve the title of model workers. Is their work considered labor also? It shows that it is easy to issue a document, but difficult to reverse traditional concepts. For this reason, the provincial government, with a big fanfare, selected a group of model workers from the scientific and technology community, not merely recognizing the outstanding contributions of experts and scholars, but also, even more importantly, acknowledging in action the status of intellectual "laborers."

The selection of scientists and technicians, educators, scholars and experts as provincial model workers is most gratifying!

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CSO: 4005/353

## BRIEFS

GUANGDONG'S NEW SECURITY DIRECTOR—Guangzhou, 23 January (ZHONGXIN PRESS)—The 24th meeting of the 6th Guangdong people's congress standing committee ending yesterday afternoon appointed Ye Jinmei [5509 6651 5019] director of the provincial state security office. A native of Guangdong's Huiyang County, Ye Jinmei, age 56, has long served in public security work and was deputy state security director before his present appointment. Former director Zhang Youheng [1728 0645 1845] left the post upon reaching retirement age. [Text] [Hong Kong TA KUNG PAO in Chinese 24 Jan 87 p 3]

6080/9716

CSO: 4005/382

## STUDENTS TAKE PART IN SCHOOL ADMINISTRATION

Beijing ZHONGGUO JIAOYU BAO in Chinese 9 Dec 86 p 1

[Text] Students of more than 60 colleges and universities in Beijing are taking part in many administrative activities, thereby strengthening their links with the schools' leading and management departments, as well as exchanging ideas and adjusting relations with them, while also cultivating their skills in observation, analysis and handling practical problems. They declared that "these are ways of gaining social experience without leaving the school."

With the support of school party and youth league organizations, student unions of Beijing University, Beijing Medical College, Beijing Iron and Steel University, Beijing Foreign Language Institute and Beijing Industrial University invited some students to serve as assistants to the principals and dining room chairmen or as chiefs of food sections, and directly take part in school administration. Three students of Beijing Iron and Steel University served as vice chairmen of dining rooms, working daily for about 2 hours alongside the cooks and taking part in cost accounting and operation and management.

After becoming vice chairman of the dining room, a student of the mining department declared with deep feeling: "In the past I always relied on teachers and leaders to solve problems. After coming to the dining room, my responsibilities have forced me to use my brains and think of ways to solve problems, improve my ability to handle issues, and train my capacity to listen to the opinions of other people."

The food management committees organized by students and pertinent school personnel of the 60 plus schools make scheduled reports of students' views on the food served in the dining room, relay to students the difficulties and problems faced by the dining room, and establish links between students and cooks in a timely manner. The committees publish daily the prices of food and cost accounting, take part in labor, sweep the dining room and maintain order at meal time. In early September, hearing students complain about the quality of food, the food management committee of Beijing Materials College acted immediately and solved the problem in a fairly satisfactory manner. The students of Beijing Normal University, Beijing Chemical Industrial College and Beijing Institute of Aeronautics and Astronautics, a total of 20 plus institutions of higher learning, formed building (flat) or student dormitory management committees to maintain order, clean and inspect sanitation in dormitories



and hallways, promote water and power conservation, and mediate disputes of various kinds. After forming a student dormitory management committee, some students of Beijing Chemical Industrial College used their own money to buy whitewash powder, whitewashed dormitory walls on holidays, and improved dormitory environmental sanitation.

The student union of Qinghua University invited more than 100 students to perform labor and maintain campus order. The student union of the China People's University formed a school guard to maintain order at large-scale activities of all kinds. Contracted to clean classrooms, the students of the Beijing Film Institute have basically stopped damage to tables and chairs. More than 10 institutions of higher learning, including the Beijing Industrial University and the China People's Police University, invited students to take part in managing reading rooms, maintaining order, loaning and receiving publications and helping with repair of books.

In the course of their participation in management, the students have come in contact with school leaders, teachers, management cadres, cooks, young workers and others, thereby increasing mutual understanding and promoting the formation of the socialist human relations of unity and mutual aid.

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CSO: 4005/353

## HARBIN IMPLEMENTS POLICY ON INTELLECTUALS

Harbin HARBIN RIBAO in Chinese 31 Dec 86 p 1

[Article: ["Intellectuals Improved Their Positions Significantly"]]

[Text] Reference materials consulted by this reporter today at the Harbin party committee organization department indicate that, since the 3d Plenary Session of the 11th CPC Central Committee, the status of Harbin's many intellectuals has improved significantly.

In the 8 years since 1979, some 13,098 intellectuals have been admitted to the party, including 639 influential and well-known figures. The proportion of intellectuals admitted was 14.69 percent annually at the beginning, but has now risen to 59 percent or more. The reporter also learned from party and government cadres that, in line with the Central Committee's "four requirements" on cadres, many intellectuals with both ability and political integrity have been promoted to leading posts in recent years. Among the 852 newly promoted cadres at the department level and above in Harbin's municipal organs and enterprise and business units last year, 567 had a college and university level education. They have become the backbone strength on all fronts.

Pursuant to the Central Committee's principle of "equal treatment in politics, free employment in work, and concern and consideration in living," the policy toward intellectuals, after several years of effort, has been basically implemented in Harbin. The main achievements are as follows: 3,839 unjust, false and wrongful cases were redressed, assets confiscated during the "Cultural Revolution" were returned to more than 1,000 persons, the problems of confiscated private residences were solved for 358 households, the problems of family separation were solved for 2,954 intellectuals, housing conditions were improved for the families of more than 15,500 intellectuals, over 20,000 high- and mid-level intellectuals were given complete physical checkups, and readjustments were made for over 9,000 specialists employed outside their fields. More importantly, with the intensive implementation of the policy on intellectuals, Harbin has begun to respect knowledge and intellectuals, and created a favorable environment for intellectuals to develop their intelligence and wisdom and render service to the country and the people.

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CSO: 4005/353

## LEI FENG SPIRIT DEFENDED

Shenyang LIAONING RIBAO in Chinese 6 Mar 87 p 1

[Article by Shen Qing [3088 7230]: "Why Fang Lizhi and Liu Binyan Are Wrong to Criticize Lei Feng"]

[Text] Lei Feng, [7191 6912] the ordinary, yet great, communist fighter lived a short life but left behind precious spiritual wealth--the ever-shining Lei Feng spirit. In the trials and tribulations of the 10 years of civil strife, the Lei Feng spirit was seriously discredited. Since the 3d Plenary Session of the 11th CPC Central Committee, the Lei Feng spirit has begun to shine anew. People cheered with joy, "Lei Feng is back!" For a while, however, Fang Lizhi [2455 0536 0037], Liu Binyan [0491 6333 7159] and others criticized and denounced his activities and spirit in every way and confused public thinking once again.

Is it really a good thing to have hundreds of millions of people emulating Lei Feng? Is it a good thing to have a host of Lei Feng-type individuals springing up? Liu Binyan has painted a frightening scenario. He said, "What is the result of hundreds of millions of people across the nation emulating Lei Feng activities with no consideration for personal safety?" That was a "painful reality." Since 1963, when Mao Zedong and other members of the older generation of revolutionaries called on the people to "learn from Comrade Lei Feng," his name has spread across the entire nation, inspiring the masses to forge ahead. Everywhere we found new people who served the masses selflessly and wholeheartedly, new things, and new trends. This is the historical fact of learning from Lei Feng. Today, a new crop of people of the Lei Feng type has appeared, such as Zhao Chun'e [6392 2504 1230], Zhang Binggui [1728 4426 6311], Zhu Boru [2612 0130 0320], Zhou Yi [0719 1837], Zhang Haidi [1728 3189 6611], Li Junjia [2621 0193 3946], and Ding Hongjun [0002 4767 6511]. Even within the ranks of intellectuals, a large number of talented people, like Lu Shicai [0712 1102 2088], Zhang Hua [1728 5478], Jiang Zhuying [5592 4591 5391], Luo Jianfu [5012 0256 1133], and Qu Xiao [2575 0876], has emerged who are both red and expert and have fully demonstrated the Lei Feng spirit. Particularly in this new age of reform and opening to the outside world, learn-from-Lei Feng groups in the tens of thousands are flourishing across the nation, from the front at the southern frontier heavy with the smoke of gunpowder to the special economic zones bubbling with vitality. They are of inestimable importance to fundamentally changing the party style and social mores for the better and stimulating the building of the socialist spiritual civilization.

NORTHWEST REGION

REGIONAL

**BRIEFS**

**RURAL IDEOLOGICAL WORK STRESSED**--Janabil, deputy secretary of the Regional Party Committee, pointed out at the recent regional conference of directors of prefecture and City Party Committee propaganda departments that many new situations and problems have arisen in the rural and pastoral areas in the wake of the deepening of economic structural reform, and it is essential to step up ideological and political work there. He pointed out that an important task in rural ideological and political work is to conduct education in changing habits and customs. We must oppose feudal superstition, and gradually eliminate outdated customs such as arranged and mercenary marriages and lavish weddings and funerals. We must resolutely put a stop to phenomena such as gambling in the rural areas. Janabil demanded that the county and township party and government leadership make full use of the rural wired broadcasting system, books, and journals to conduct propaganda and education for the peasants and herdsmen and occupy a rural ideological and cultural position. [Excerpts] [Urumqi Xinjiang Regional Service in Mandarin 1300 GMT 24 Mar 87 HK] /12913

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